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**H.R. 3838; HOUSING AND COMMUNITY
DEVELOPMENT ACT OF 1994—PART 2**

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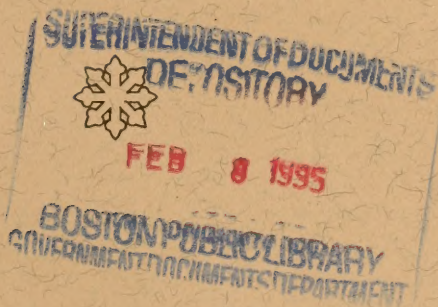
HEARINGS
BEFORE THE
SUBCOMMITTEE ON
HOUSING AND COMMUNITY DEVELOPMENT
OF THE
COMMITTEE ON BANKING, FINANCE AND
URBAN AFFAIRS
HOUSE OF REPRESENTATIVES
ONE HUNDRED THIRD CONGRESS

SECOND SESSION

APRIL 14, 20, 26
MAY 5 and 12, 1994

Printed for the use of the Committee on Banking, Finance and Urban Affairs

Serial No. 103-120



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**H.R. 3838; HOUSING AND COMMUNITY
DEVELOPMENT ACT OF 1994
(REAUTHORIZATION AND HUD'S 1994 LEGISLATIVE
INITIATIVES)**

THURSDAY, APRIL 14, 1994

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING
AND COMMUNITY DEVELOPMENT,
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2128, Rayburn House Office Building, Hon. Henry B. Gonzalez [chairman of the subcommittee] presiding.

Present: Chairman Gonzalez, Representatives Vento, Mfume, Waters, Klein, Rush, Roybal-Allard, Barrett of Wisconsin, Velazquez, Wynn, Watt, Bereuter, Baker of Louisiana, Knollenberg, Lazio, Grams, and Sanders.

Chairman GONZALEZ. The subcommittee will please come to order.

The House leadership announced a change yesterday. It had originally been scheduled to meet at 12 noon when we made arrangements for this hearing, but now it is going to meet at 10 o'clock, obviously because the Crime bill will actually get started today, the general debate and so forth. But we don't know if they will be having what we call 1-minutes which will give us some respite or whether somebody will interpose a vote on accepting the *Journal*. But, anyway, I think we had better proceed.

Some of the Members, I am sure, are waiting to see if they won't have to go record their vote first before coming here. But I think we should proceed in order to expedite the hearing and to avoid keeping you here unnecessarily all morning long.

The members—the ranking members of the subcommittee had indicated they would be here, so I am sure they will be.

Today, we welcome the four program Assistant Secretaries of HUD. We had been on several occasions last year off and on under varying circumstances, hearing from individual Secretaries. But today, because of our need to continue on schedule, and we are on schedule, on extending the life of all of the Affordable Housing Programs which expire this year, we are very fortunate to have the four mainline executives of this Department. They will present the details of the administration's legislative proposals of 1994, and, if possible, see if before we reach the markup scheduled we could include substantially the administration's bill.

Now, I introduced what is known as H.R. 3838 with 20 members of the committee as original cosponsors on February 10. And even though the HUD legislation has not yet been released, and I can very well understand why, the Secretary presented some of the Department's initiatives in general in February. And as I understand it, the major initiatives are also included in the administration's budget.

It is my intention to listen very closely to today's testimony, which is very important, and to review the legislative package closely once it is available so that, on a bipartisan basis as we have done up to now, we can continue and include a number of the proposals in the markup vehicle this next month of May.

As I have said before, the reauthorization hearings will continue this month in anticipation of moving legislation to the House floor by June. Certainly, we intend to do everything we know how to move it long before the July 4 recess. In the weeks ahead, the proposals that you will have will come under scrutiny from housing advocates and interest groups, as will also H.R. 3838.

Many of the initiatives and the technical changes, a part of the administration's 1993 legislative package, were just signed into law by the President. The House and the Senate passed on this legislation just prior to the break.

The law incorporates most notably restructured and simplified reforms of the Multifamily Property Disposition Programs, a new Economic Grant Program as part of the Section 108 Loan Guarantee Program, technical and clarifying changes to the HOME provisions including the establishment of a flat 25 percent match and a number of other technical changes to existing law which will enhance program implementation.

I expect that the 1994 package will include provisions which will define the goals and the strategies of this administration with regard to homelessness, to public housing reform, revitalization of the FHA Single-family Programs, and the fair housing and community revitalization.

The subcommittee would like to learn more about the details of these proposals to determine how the proposals fit within the extensive body of housing law, how these proposals will improve implementation of Federal programs and finally whether these proposals will be enacted without adversely impacting the core programs which are so critical to so many of our communities.

As the Secretary heard when he appeared before the subcommittee, we have some concern that the budget proposal in which many of your initiatives were outlined does appear to fund new programs, no matter how creative and worthy, either by decreasing funding levels for programs such as public housing operating subsidies and modernization, the Section 202 Elderly Housing Program, or the HOME Program.

As this hearing continues, the regular legislative process for the Reauthorization bill, we are particularly interested in your comments about the proposals in H.R. 3838, in your priorities remaining from the 1993 administration legislation, and your 1994 proposals and legislation. I certainly am looking forward to the testimony.

I have just been informed that the ranking minority Member of this subcommittee, Mrs. Roukema, is in Colorado on the occasion

of the birth of her second grandchild. Now, I am told as desperately as she might try, it won't be possible to catch up with me with 21 grandchildren. She has a long way to go.

Mr. Bereuter, do you have a statement?

[The prepared statement of Mr. Gonzalez can be found in the appendix.]

Mr. BEREUTER. Thank you very much, Mr. Chairman. I am reluctant to have my sons get married.

I look forward very much to the testimony here today. A couple of initial questions I really would like to work into an opening statement. We have not received the legislative package, of course, from HUD, and the testimony itself came to us quite late. We are trying our best to find our way through it for good questions here today.

I understand that thus far OMB has indicated thumbs down on a Native American Finance Authority, Mr. Shuldiner, and that concerns me. I don't know the reason for it. And I hope that in the course of your testimony, you will address HUD's level of support for that and whether or not in the next few days you think it might be possible for HUD to work out whatever those difficulties might be that are raised by OMB.

And I can't help mention, although we are focusing on specific program initiatives here from HUD, and this administration, that the news media in the last 2 days has been filled with stories about the abuse and corruption at the DC Housing Authority and I hope that, if not today, you can communicate to us shortly what HUD is doing to correct the problem, since the reports to HUD about the level of corruption at the DC Housing Authority have been longstanding.

I must say they are very disturbing reports and I hope that you can give us some assurance that this is not a widespread phenomenon across the country in troubled housing authorities.

Thank you, Mr. Chairman.

Chairman GONZALEZ. Thank you very much. The order of things has been altered somewhat and on the request of the witnesses, we will recognize Mr. Retsinas, the Assistant Secretary for Housing—Federal Housing Commissioner, and then I believe he will yield to Mr. Shuldiner, and then back to you, and then we will finally get over to Mr. Cuomo and Ms. Achtenberg.

So without any further ado, we will recognize you, Secretary Retsinas.

STATEMENT OF NICOLAS P. RETSINAS, ASSISTANT SECRETARY FOR HOUSING—FEDERAL HOUSING COMMISSIONER

Mr. RETSINAS. Thank you, Mr. Chairman, for the opportunity to come here this morning and give you an outline of our legislative initiative and package.

What I would like to do, Mr. Chairman, and members of the subcommittee, with your permission, is summarize a brief opening statement on behalf of Secretary Cisneros and give you the full statement for inclusion in the record.

Chairman GONZALEZ. I was here at the founding of HUD and I have seen all the anguish and also the very little known note that President Kennedy tried twice, and failed, to establish a Depart-

ment of Housing. It was not until after his death that President Johnson did it. And then came the advent of the growth, importance, and heavy presence of OMB.

So it was after your presentation had been cleared by OMB that we received it late last night. But I had a chance to look at it and I wanted to thank you for it. Every one of the prepared statements will be in the record exactly as you gave them to us, following your oral presentation this morning.

I am also going to ask unanimous consent that the members have an opportunity to submit questions in writing. Some have indicated that if they cannot make it, they would like to do that, so I will allow that now.

[The questions referred to can be found in the appendix.]

Mr. SCHUMER. In 1992, I included a provision in the National Affordable Housing Act creating the Family Unification Program [FUP]. The FUP would provide emergency housing assistance to families at risk of losing their children to foster care solely for the reason that they do not have adequate housing.

I am disappointed that the administration has requested terminating the program. According to the Children's Defense Fund, this program has been very successful in a short time. In addition, our housing policy, I presume, is not simply just to provide shelter but to keep families together. The Family Unification Program keeps families together.

Why has the administration decided to terminate this program?

In your view, has this program been ineffective? Is Children's Defense Fund wrong?

How do you suggest that HUD provide housing for families at risk of losing their children to foster care due to inadequate housing?

[The information referred to can be found in the appendix.]

Chairman GONZALEZ. Mr. Secretary.

Mr. RETSINAS. Thank you, Mr. Chairman.

Mr. Chairman, we are pleased to present to you today the outline of what will be the Housing and Community Development Act of 1994 as proposed by the administration. Our format this morning, as you described it, will be for myself and my colleagues, Joseph Shuldiner, Assistant Secretary for Public and Indian Housing, Assistant Secretary Roberta Achtenberg, for Fair Housing and Equal Opportunity, and Assistant Secretary Andrew Cuomo, Assistant Secretary for Community Planning and Development, to cover the substantive areas of the legislation for the four program areas.

As you know, we have worked closely with you, the members of the subcommittee, and the members of your staff for the past 15 months to bring about fundamental changes in HUD and in America's communities.

The President's commitment to putting people first represents a serious effort in this administration to improve the quality of life for every American. At HUD, we are reinventing our management, redesigning our programs, and expanding our initiatives to deliver on the urban and metropolitan housing and community development goals and responsibilities of the President's agenda.

Recently, Secretary Cisneros signed a performance agreement with the President detailing what the Department plans to accom-

plish in each of the six priority areas. Our 1994 Reauthorization bill will directly reflect those priorities and performance objectives.

Mr. Chairman, the Reauthorization bill of 1994 will authorize approximately \$60 billion over the next 2 fiscal years for the Department's programs establishing, we believe, a strong foundation for implementing the President's housing opportunity and community investment agenda. This legislation will reflect the fundamental re-ordering of HUD's program and managerial priorities as well as a transformation in the way the Department conducts its business. This new mission and ethic are the vehicles by which HUD will become a true agent for change to bring about real hope and progress for those living in America's communities.

I would like to outline what those priorities are and establish who will have the responsibility for giving you the details of those priorities.

Priority number one in this performance agreement is reducing homelessness. The Department is committed to reducing the number of homeless Americans through partnerships with local governments and private nonprofit groups. To accomplish this goal, HUD is transforming the way the Federal Government addresses homelessness and Assistant Secretary Cuomo will spell out the details of our legislative initiatives that will address this priority.

Priority number two is turning around public housing. As you know as well as anyone in this country, over the past several decades Federal policies have too often transformed public housing into warehousing for the poor. An estimated 86,000 units are now considered severely distressed. As soon as I complete my opening statement, Assistant Secretary Shuldiner will outline the legislative initiatives that will begin to transform and turn around public housing.

Priority three is expanding affordable housing and homeownership. The Department continues to refer to housing as a key priority of the Department and the administration. We believe that after a decade of decline, HUD's Federal Housing Administration can become a positive force for enhancing homeownership opportunities. I will speak to you about legislative initiatives that we think will make progress in this area.

Priority number four is enhancing fair housing. This Department and this administration and this Secretary are committed to using all of their powers and resources to combat discriminatory practices in the marketplace and in Federal programs. Individuals must be able to live in neighborhoods of their choice and my colleague, Assistant Secretary Achtenberg, will outline the specific legislative initiatives that we believe will address this problem.

Priority five is empowering communities. Our Reauthorization bill would support HUD's effort to become a positive force, a catalytic agent in the rebuilding and revitalization of our Nation's communities. Federal programs must give communities the flexibility to design strategies tailored to local needs and the tools and resources needed to carry out those strategies. Assistant Secretary Cuomo, as part of his presentation, will outline specific legislative initiatives that will move us toward this priority.

Priority number six, which is a part of all our presentations, is bringing excellence to management. This bill will contain numerous

provisions for increased savings through management reforms, streamlining of administration, eliminating programs, faster recapture of unspent grant funds, tougher enforcement measures, and stiffer monetary penalties against corruption and abuse by HUD clients.

Mr. Chairman, and members of the subcommittee, we are pleased to present to you the more detailed overviews of how we can accomplish these program priorities, beginning with my able colleague, Joe Shuldiner, Assistant Secretary for Public and Indian Housing.

[The prepared statement of Mr. Retsinas can be found in the appendix.]

STATEMENT OF JOSEPH SHULDINER, ASSISTANT SECRETARY FOR PUBLIC AND INDIAN HOUSING

Mr. SHULDINER. Thank you, Nick. Good morning, Mr. Chairman, and members of the subcommittee. Thank you for the opportunity to testify before you on our legislative priorities for 1994. And also, let me thank you for passing the Multifamily Housing Property Disposition Reform Act of 1994, which had several technical amendments which I believe will be helpful for public housing.

I would like to just discuss what I feel are some of the highlights of our proposed legislation and I guess in fitting in with the chairman's remarks, I will start with crime, since most of the members are involved in the Crime bill debate right now.

We have a number of items in our legislative package that attempt to address crime in public housing. The most important one is Community Partners Against Crime, a reworking of the existing Drug Elimination Grant Program. What COMPAC will do is we believe make that Anti-crime Program more effective.

As you may know, we are 2 years into the Drug Elimination Program. We had ABT Associates review how that program was working and they came back to us and identified some of the strengths of the programs and some of the weaknesses, and in COMPAC we are attempting to address some of the weaknesses that came out in the ABT Report as well as our own discussions with housing authorities.

The prime component of it is that, first, the funding will be for 5 years rather than 2. Our experience has been that housing authorities who are addressing severe crime problems cannot resolve them in the 2-year funding that is part of the Drug Elimination Program and it is important for them to have longer term funding commitment.

The second part of COMPAC as part of that 5-year program is the requirement to actually plan to have a 5-year plan very similar to comprehensive grants or Modernization Program so that they can identify the problems they have relating to crime and come up with a longer term strategy to address it.

The third aspect is that the funding will be more secure or guaranteed. The 5-year funding will allow authorities to know that they will get 5-year funding, that the income stream will be secure, and they can do much more comprehensive planning as a result.

And last, but just as importantly, COMPAC expands the focus of the program from merely drug-related crimes to all crimes. We be-

lieve this is especially important because in again talking to housing authorities, looking at the data, we see that there are other significant causes of crime that are not drug related. Alcohol-related crime, violent crime, domestic violence. The more wide ranging aspects of COMPAC allow all these things to be subject to a planning and programmatic approach. So we believe that this is very important.

A second request that we have of the legislature is for a law that will preclude States from prohibiting gun bans in public housing. Unfortunately, in some cases where public housing authorities have, in fact, issued gun bans, their States have acted to prohibit housing authorities from doing the same.

We believe that if housing authorities believe that a gun ban would be helpful, we want to provide them with the opportunity to, in fact, implement gun bans and we are asking Congress to prohibit States from in turn prohibiting gun bans in public housing.

The last item that we have relating to crime has to do with clarifying clearly the ability of housing authorities to access and use criminal records in screening residents or screening applicants for residency in public housing. This is an area that is fairly muddled. Some authorities do it. Some police departments cooperate, some don't. It is really unclear what the legal ramifications are. But we believe it is an important part of good management, good housing management, to be able to look at the history of applicants and make a responsible decision based on it. And, therefore, we would like Congress to clearly state the ability to do so.

The second general area I would like to point out is rent reform. This is perhaps the highest priority legislatively that the Department has. The Secretary speaks about it every chance he can. We believe very strongly that we have to encourage residents in their efforts to become fully employed. The percentages of people living in public housing who are unemployed has grown dramatically and we believe that the rent system that exists in public housing is a clear disincentive for people to work.

On the low end scale, for someone on public assistance who gets a job, not only are they effectively taxed at a 50-percent rate or higher because they pay 30 percent of their income in rent in addition to any taxes they may pay, in addition to Social Security, they lose Medicaid benefits, they lose child care benefits. It is a significant disincentive to work. And we want to support and encourage people to return to the work force or to enter the work force.

We have two pieces of legislation that we believe will do that. The first is an income disregard, an 18-month income disregard. What this basically will do is that for a person who has not worked for a year, if they enter the workplace, if they get a job, that additional income will not result in a rent increase for 18 months. This will give them an opportunity to benefit from the increased income, to stabilize their situation and in effect phase into the workplace.

When this bill was presented to the Senate last year, they did adopt this with an amendment that we do support, which is that at end of the 18 months, the rent increases thereafter will be phased in. And we believe that that was a good modification of original submission.

The second aspect of rent reform is more liberalized ceiling rents. There have been many advocates for ceiling rents with many different proposals. This subcommittee itself implemented a form of ceiling rent several years ago when it approved, and enacted a 10-percent disallowance or credit for working families in public housing. We believe these kinds of efforts have to be expanded.

We also believe that in different circumstances, different approaches are warranted and should be allowed. Therefore, our language is fairly broad and flexible. What we are asking, basically, is that ceiling rents can be at any reasonable rate as set by the Secretary. This will allow us to respond to unique and well-thought-out proposals from individual housing authorities.

As a practical matter, we will provide certain models that housing authorities can follow, but we don't want to limit housing authorities who come up with individualized solutions.

Again, the Secretary believes very strongly that in order to improve housing authority communities, we need to support more residents entering into the work force and ceiling rents helps us do that. The disregard helps us to do that.

The third area I want to mention is related and, of course, is a high priority because it relates directly to our residents. Historically, we have only had one program that directly funds resident councils and that was the technical assistance grant which was a limited program funded at \$5 million a year that basically provided assistance to resident councils that were interested in pursuing resident management.

We believe providing technical assistance and working with resident councils is extremely important. They are the mission in effect. These are our clients, the housing authorities' clients. Residents being organized receiving technical assistance is paramount and we don't want it limited. What we can believe is that residents should receive technical assistance, they should receive counsel, whatever it is, to set their own priorities and then regardless of what those priorities are, we should support them.

If they are resident management, fine. If it is economic development, if it is security, if it is homeownership, it doesn't matter. The issue here is supporting residents to empower themselves. We are not looking to empower residents, we are looking to assist them in empowering themselves.

Therefore, we have asked for legislation for a tenant opportunities program, a program that will again allow all resident councils who are interested to receive this technical assistance, to receive support so that they can make informed choices, set their own priorities, and be supported in those priorities.

I should add to the administration's credit, the Congress, and to the Department, even with the limited TAG Program in 1994 we quintupled the allocation from \$5 million to \$25 million. We have proposed for 1995, \$85 million for the new TOP Program putting our money where we believe our priority is, with the residents. We believe that the future of public housing is dependent on having informed, well-organized resident groups. And we are hopeful that you will agree with us and allow for this expansion of the program.

In recognizing the need to change what I have spoken about so far in terms of rent reform and the Tenant Opportunities Program,

is the recognition of a change in the culture of residents, getting the residents much more involved both in working and in working on the problems of public housing and the development that they live in.

The other aspects deal with working with the housing authorities as well. One of our key legislative initiatives is to allow for an entrepreneurial PHA. We are asking for permission to identify up to 25 housing authorities where we would have authority to allow them to experiment in new ways in delivering services, in new development, and rent rules, in whatever it would take to make their housing authority or any particular development a more viable and environmentally sound community for the residents. So we are pretty excited about that.

There are already many authorities—well, as you might imagine, many authorities come to us all the time to ask us to waive all the rules that we have anyway, but we would like to do this in a more structured fashion, if at all possible, and therefore ask for this authorization.

Related to that, as Mr. Retsinas said, turning around troubled housing authorities and troubled housing developments is extremely crucial to any effort we make. In terms of the developments themselves, the key or the real lead of what we are doing is the urban revitalization demonstration, the so-called HOPE VI Program whereby up to \$50 million can be directed to a single housing development to not only change it physically, but to change it psychologically, culturally, and economically.

As you know, the law allows up to 20 percent of the money, or up to \$10 million to be used to support community service, social service, the nonbricks and mortars, the so-called soft programs that make a community different than the way it was. We have some technical amendments that recognize the defenses between the original urban revitalization demonstration and the new section 24 where we are hopefully taking the best from each of those programs and merging the legislation.

Let me digress a moment to respond to Mr. Bereuter in terms of the DC Housing Authority. First, this Department has focused primarily, as you know, to date, in its more public aspects on the housing authority in Philadelphia. And I am pleased to report to you that at least according to an editorial in the *Philadelphia Enquirer* last Friday, the housing authority has received in their scorecard after 6 or 7 months, the housing authority receives an A for effort and a B for result.

While that is not a perfect answer yet, I think for people looking at the Philadelphia Housing Authority prior to last August, that is an unexpectedly successful outcome. And we are looking to addressing some of the still remaining shortcomings in time for the first-year anniversary in August.

I will say, as far as the District's housing authority here, we are obviously very concerned in what is going on. We have followed it closely. We were reluctant to become publicly engaged because of the already existing court case to which we were not a party. And then more recently, the court case became even more confusing.

And so we have, in fact, as the paper reported, we have begun to enter the fray, and I have personally been in contact with all the

parties to the action trying to see how specifically the Department could be helpful in addressing the conscience at the District. I am not at liberty just now to say what we are proposing, but I do want to assure the Congressman that we are involved at this point.

Just the last highlight of the legislation and then I will speak to NAFA, and the section 8 merger. As you are aware we basically have two Section 8 Programs, the Voucher Program and the Certificate Program. I believe everybody recognizes the need to merge the two, have one program. We have offered a proposal which we believe takes the best aspects of both programs in a merged certificate voucher unit in any event. And we believe this is critical legislation to reduce the administrative costs of the program, to make the relief more uniform and easier to understand.

We have proposed the aspects that we think makes sense. I do want to assure the members of the subcommittee that we have been meeting with all parties as we have gone forward with this process. We have met with legal services, we have met with housing authority representatives, we have met with landlords' associations in trying to fashion a bill where there would be agreement on the aspects that we have included.

I will further say, though, that we do not necessarily believe that this is the only outcome. We think that merger is important. That is the end result here. We want to see merger of certificates and vouchers and we would be happy to discuss any modification to the actual proposal that we have submitted.

Last, if I can just speak a moment about the Native American Financing Agency, the Department and the Secretary clearly support this. It is our commitment to one way or another have legislation creating the agency this year. The Congressman mentioned that apparently OMB did not approve of our proposal and therefore it is not before you. Unfortunately, I have to relate that other Departments in the administration also nonconcurred. And frankly, we were unable to address the nonconcurrences in the timeframe of our presentation to you today.

We are still committed to getting those nonconcurrences resolved and having, if you will allow, having a bill that would support the creation of a Native American Finance Agency enacted this year. Again, we will try to meet the chairman's timeframe of something that can be in fact enacted before the break. I don't know if that is possible. But we are committed to supporting this effort and getting something back to the Congress.

With that, let me conclude my remarks and thank you for this opportunity. And I certainly would be happy to answer any questions that you might have, Mr. Chairman.

[The prepared statement of Mr. Shuldiner can be found in the appendix.]

Chairman GONZALEZ. Thank you very much.

Do we return to you, sir?

Mr. RETSINAS. Yes, Mr. Chairman, members of the subcommittee, my role now is to outline in some detail the legislative initiatives that will help us achieve the priority of expanding homeownership and ensuring affordable housing which remains a priority in this country.

The goals of our housing programs are both simple and ambitious. They are to increase opportunities for homeownership among low- and moderate-income families, to expand the availability of affordable rental housing through production programs for new units and, very importantly, to preserve good quality multifamily housing as an affordable housing resource.

I believe that we have begun to take steps to once again be a positive force for expanding and preserving the supply of affordable housing.

The themes in our legislative initiative this year will be revitalization and partnership. We will continue to revitalize the Department's programs and particularly those of the Federal Housing Administration and to do that, in large measure, through the forging of partnerships with a number of different actors that allow us to achieve those goals.

What I would like to do this morning is give you a brief update—a very brief update—on the status of the Mutual Mortgage Insurance Fund. And later on this month or in the beginning of next month, I am prepared to come back and give you a fuller report once we complete the actuarial analysis.

I came before this subcommittee last year to report on the status and condition of our Mutual Mortgage Insurance Fund, the MMI Fund. I stated at that time that the fund remains solvent and that its financial condition was improving. I am happy to report that that is still the case. I can now go beyond last year's statement and advise you that the health of the fund has improved significantly since I last came before this subcommittee.

A draft actuarial analysis for the fiscal year ending September 30, 1993 would indicate that the FHA MMI Fund has exceeded the legislatively mandated 1.25 percent capital reserve ratio, and it is expected to meet and exceed the 2 percent reserve requirement well before the year 2000. This analysis will be available at the end of the month and I stand ready to come back and go over it in more detail if you would wish.

Our initiatives speak to an expansion of our Single-family Homeownership Programs. What I would like to do is give you an outline of those initiatives and leave the specifics for any questions that you may have.

It is clear to me that one of the priorities of our administration and of our Department must be to put FHA back in business again. It has been a strong force for homeownership and affordable housing throughout its 60 years. This is a particularly critical year to focus on it.

As you know, Mr. Chairman, and members of the subcommittee, this year will mark the 60th anniversary of the FHA and it is time to reassess its role and to make sure it continues to be a positive force. We intend to propose a series of initiatives to reinvigorate our Single-family Mortgage Insurance Program and to increase its availability to low- and moderate-income first-time home buyers. We believe that these proposals reflect new approaches to expanding homeownership opportunities.

First, we propose to establish a new program to make FHA home mortgage insurance available on special terms to buyers who have no more than 115 percent of area median income in neighborhoods

undergoing revitalization. We believe that this proposal will help FHA be more of a partner in local and neighborhood based efforts to revitalize our communities.

Under this pilot program, buyers would be able to receive 100 percent financing on the home. In addition, all buyers would need to go through prepurchase counseling. Although closing costs would not be financed through the insured mortgages, we believe that these costs as well as other cash requirements could be provided through State or local government programs or nonprofit contributions.

Further, we propose to seek authority to increase our single-family mortgage limits to expand homeownership opportunities for moderate-income families. Our current mortgage limit makes our program unaccessible to moderate-income families in certain areas. We will propose an increase indexed to the Freddie Mac and Fannie Mae conforming loan limit so that we can make sure that our programs become tools for homeownership throughout the country.

Third, by stressing entrepreneurship and being able to respond to changing conditions in the marketplace, HUD can remain the dynamic force for providing new homeownership opportunities for low- and moderate-income buyers. Therefore, we propose to establish innovative demonstrations using alternative mortgage instruments insured under the National Housing Act and we would look forward to partnerships with Fannie Mae, with Freddie Mac, with the Federal Home Loan Banks, and their members and State and local housing finance agencies.

While current law contains authority for specific programs such as adjustable rate mortgages, we do not have general authority to develop or insure new mortgage instruments. Each potential innovation must await new legislation. Such programs, as well as broad authority to enter into partnerships with other housing entities, will eliminate an impediment to public and private efforts to provide affordable homeownership opportunities. These demonstration programs will be capped.

In addition, our legislative package will seek the authorization of risk sharing of insured mortgages between HUD and selected State agencies to allow those agencies to better serve their markets. For example, in States such as California where many metropolitan areas have relatively high home prices, the FHA Single-family Insurance Program may not be used effectively because of relatively low statutory mortgage limits.

Under this initiative, FHA credit enhancement would be made available through risk sharing arrangements with State agencies under programs that qualify under a State program but which exceed FHA mortgage limits. It will complement State efforts to provide affordable housing without creating undue risk to the FHA fund.

As you know, in our budget and in our legislation, we proposed to quadruple the funds available for housing counseling. We propose to use these funds to conduct outreach and marketing for prospective home buyers targeted to neighborhoods with a high proportion of low- and moderate-income and minority households; to coordinate a proactive, prepurchase homeownership strategy that

includes linkages with other HUD-approved counseling providers and community-based organizations; to serve as an advocate for home buyers by working with the mortgage lending industry with regard to overcoming credit barriers to homeownership; and to continue to make counseling an important part of keeping families in their homes and sustaining homeownership.

Mr. Chairman, as you know, the Department has also requested \$100 million for a demonstration program to fund your initiative, the National Homeownership Trust demonstration, which we believe has the potential to increase homeownership substantially. We will be proposing some changes to that demonstration cognizant of the current market conditions.

We believe this program can be implemented through the demonstration that you initiated. And we believe that the amendments can make even more effective use of downpayment assistance, second mortgage assistance, and the use of funds to capitalize revolving loan funds and, more importantly, to involve States and non-profits in the program. We also are seeking ways to ensure that this demonstration is tied to our FHA insurance proposals.

There are a number of other technical proposals that we will have in the bill. One, we would like to expand the eligibility, though not the volume, because we think the volume cap is sufficient for the very popular and successful Home Equity Conversion Program. That is the Reverse Equity Program for elderly homeowners. We would like to extend and expand the program by making owner occupied two- to four-family properties eligible.

We will be proposing to simplify our downpayment requirements which are now much too complicated and we believe the legislation would give us the authority to do so.

We seek your permission to increase mortgage limits under Sections 221(d) and 237 Programs, programs that focus on low-income households.

The fourth technical proposal is to seek an expansion of our Delegated Endorsement Program. We would like to work with prudent, qualified local lenders that give them added authority to expedite the processing of loan applications for first-time home buyers.

On the multifamily side, let me both repeat and emphasize the thanks my colleague, Assistant Secretary Shuldiner, has already given you. The leadership of you, Mr. Chairman, and members of the subcommittee and your respective staffs, in ensuring that the multifamily disposition legislation that we submitted last year saw the light of day and became a reality is gratefully appreciated.

We are now embarking on a task to ensure that we not only carry out the letter of the law but, more importantly, the spirit, which is to balance the fiduciary interest of the fund and the need to preserve affordable housing and affordable housing opportunities. We believe, because most of those legislative initiatives on multifamily were included in that bill, our legislative changes proposed during our reauthorization will be somewhat more technical, including a look at the use of civil money penalties against nonperforming owners of assisted projects and the authority to require lenders to accept partial payments of claims. We will have a number of other specific proposals that are in the order of streamlining and clarifying some of our authorities.

This concludes my overview of our housing production and housing preservation initiatives. We look forward to working with you to flesh out these initiatives and ensuring that FHA once again becomes a partner in the cause of affordable housing.

I am now happy to turn it over to my colleague, Assistant Secretary Roberta Achtenberg.

STATEMENT OF ROBERTA ACHTENBERG, ASSISTANT SECRETARY FOR FAIR HOUSING AND EQUAL OPPORTUNITY

Ms. ACHTENBERG. Good morning. I am pleased to have the opportunity to testify on H.R. 3838 and HUD's 1994 legislative package concerning programs of interest to the Office of Fair Housing and Equal Opportunity.

With regard to H.R. 3838, that bill introduced by the chairman contains reauthorization of the Fair Housing Initiatives Program for the years 1995 and 1996. We are pleased to see the continuing increase in funding for this program.

Congress revised the FHIP Program in the Housing and Community Development Act of 1992, by adding an increased focus on lending discrimination and building the capacity of fair housing enforcement organizations, particularly those that would be located in unserved and underserved areas.

We have just completed reviewing the FHIP applications for the latest funding cycle and expect to announce the winners of that competition in the near future. I was struck by the breadth and diversity of the proposals being submitted and the many new groups that are applying for funding.

We will soon be publishing our fiscal year 1994 Notice of Funding Availability and be able to place even more FHIP funds in the hands of the private fair housing enforcement organizations, and State and local human rights agencies, that have played such an important and key role in advancing the fair housing agenda through enforcement and education and outreach.

Mr. Chairman, you will soon be receiving a number of additional legislative proposals relating to Fair Housing and Equal Opportunity. These proposals support the efforts of the President as evidenced by Executive Order 12892, which the President signed in January of this year, and those efforts as well of Secretary Henry Cisneros to affirmatively further fair housing, to continue the assault of the Federal Government on lending discrimination and to enhance economic opportunities in connection with HUD programs.

The proposals are summarized as follows: We have a legislative proposal that will authorize a demonstration of metropolitan areawide assisted housing strategies. We have a legislative proposal that would treat expenditures to affirmatively further fair housing as eligible activities in their own right under the Community Development Block Grant Program.

We have a proposal that would expand use of amounts in section 213(d), the headquarters reserve in connection with the settlement of civil rights litigation. We have a legislative proposal that will give HUD the authority to levy civil money penalties on nonreporters under the Home Mortgage Disclosure Act. And, finally, we have a legislative proposal that would create Economic Opportunity Centers for those in HUD-assisted housing who would

otherwise be eligible for job training and job assistance under the Section 3 Program.

With regard to the metropolitan areawide assisted housing strategy demonstration, under this 3-year demonstration the Secretary would select consortia of units of general local government in three different regions to market HUD-assisted housing on a metropolitan areawide basis. The demonstration is designed to determine how best to affirmatively further fair housing and address the problem of racial segregation in metropolitan areas, fill vacancies in assisted housing by use of consolidated waiting lists, enlist the cooperation of local government, public housing agencies, and private owners of assisted housing in affirmatively furthering fair housing, make public housing a path to social and economic mobility and how in general to eliminate housing discrimination.

A nonprofit organization would administer a clearinghouse in each metropolitan area. The clearinghouse would operate a consolidated waiting list of available federally assisted housing units in each participating metropolitan area. Public housing authorities and other housing providers would report their vacancies to the clearinghouse as they occurred. The clearinghouse would carry out an active housing counseling, Fair Housing Information and Support Program to encourage applicants to consider housing throughout the area.

An independent evaluation of the demonstration would assist HUD and the Congress to determine whether current programs should be revised or new ones created.

With regard to "affirmatively furthering fair housing" as an eligible activity under the CDBG Program proposal, Congress has for many years required that all recipients of CDBG funds, entitlement communities and States alike, certify that they will affirmatively further fair housing. To this end, some communities and States conduct analyses of impediments to fair housing and take steps to overcome those impediments. Some communities enact fair housing laws equivalent to the Federal law. Other communities fund fair housing groups to test real estate practices, fund community housing resource boards, work with local lenders to assure that there is no discrimination in lending and conduct a variety of other outreach and educational activities.

The statutory cap of 15 percent on public service activities has sometimes been a deterrent to a community wishing to expend CDBG funds on fair housing enforcement, education, and outreach activities. We propose to make activities to further fair housing eligible activities in their own right, so that they would not operate against this 15 percent cap, thereby giving State and local jurisdictions greater ability to utilize CDBG funds to conduct affirmatively fair housing activities.

Regarding the proposal related to using section 213(d) funds to settle civil rights litigation, when Secretary Cisneros arrived at HUD, one of the first things he noticed was the number of lawsuits that he had inherited. Many of them involved claims that HUD had contributed to segregated housing by inadequate program oversight, and these lawsuits have been launched against HUD in places such as Omaha, east Texas, west Dallas, Allegheny County, Minneapolis, and others.

The Secretary directed his program Assistant Secretaries and general counsel to examine these lawsuits and attempt to settle them if the claims were meritorious.

When we began addressing settlement of these lawsuits, what we found was that the Secretary did not have all of the necessary tools to craft appropriate remedies that would be sufficient to settle these lawsuits. Section 213 could supply section 8 vouchers if we needed them for settlement, but it could not supply the means to fund mobility counseling programs for the voucher holders or certificate holders to assure that HUD could use part of a remedy fund for groups that would provide a full range of housing choices, mobility counseling services, enforcement services, and the like.

What we seek in our legislative proposal is a means to assure that the Secretary, in his discretion, can provide a full range of appropriate remedies so that he might be in a position to settle some of the civil rights lawsuits that have been lodged against the Department and which he believes are meritorious and therefore need to be settled. We do not intend to settle cases indiscriminately or without regard to available resources. We do believe that the additional flexibility that would be provided, without an increase in funding I might add, would definitely be of assistance to the Secretary in this effort.

With regard to civil money penalties for HMDA violators. When Congress passed the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, it substantially strengthened the HMDA Disclosure Act by requiring the reporting of the race, gender, and income of borrowers and applicants for home mortgages.

The act also established the Secretary of HUD as the designated reporting agency for lenders not regulated by other Federal financial agencies. FIRREA also attempted to provide enforcement authority to HUD to assure proper HMDA reporting, but failed to do so. And the Department of HUD Reform Act of 1989 provided civil money penalty authority but only with respect to mortgagees that do business with HUD. Although a number of reporters are indeed HUD approved mortgagees, a number of them are not. These reporters, therefore, are free to ignore the requirements of HMDA without any remedial action available to the Department.

This administration has been very aggressive in its pursuit of lending discrimination. As you may know, a 10-agency interagency task force on lending discrimination was convened by Secretary Cisneros, Attorney General Reno, and Comptroller of the Currency Ludwig along with participation by the Office of Thrift Supervision, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Federal Housing Finance Board, the Federal Trade Commission, the Federal Housing Enterprise Oversight Office, and the National Credit Union Administration.

Just last month, the task force issued a major policy statement on lending discrimination stating that for the first time, they would consistently enforce a law that has been on the books for 26 years. While the statement itself was a consolidation of existing law, the event was without precedent in the annals of banking history. Part of this lending enforcement effort includes review and analysis of HMDA data.

Obviously, the combined efforts of these agencies to enforce both the Fair Housing Act and other civil rights statutes will not be limited to lenders who do business with HUD. Equalization of the civil money penalty requirements for all HMDA reporters will help ensure consistent and effective enforcement.

Therefore, we believe that it is appropriate to fill the gap in enforcement of HMDA by allowing HUD to levy civil money penalties against those nondepository institutions who are nonreporters and over whom we otherwise would have no leverage.

Finally, Mr. Chairman, with regard to economic opportunities for residents in HUD-assisted programs proposal, as this subcommittee is well aware, section 3 of the Housing and Urban Development Act of 1968 has never really lived up to its promise. Congress wanted HUD, through that piece of legislation, to do everything that it could to attempt to provide jobs, training, and business opportunities to residents, the public housing residents as well as residents of the neighborhoods surrounding HUD-assisted housing and community development projects.

It took the Department 5 years to issue its first section 3 regulations, which it finally did in 1973, only after a suit was filed in Federal district court against then-Secretary James Lynn.

Despite several legislative changes to section 3, HUD never updated its regulation. The promise of the act became virtually a dead letter. Then, in 1992, the Congress revised and breathed new life into section 3. HUD responded by publishing proposed regulations in late 1993. Interim regulations will soon be issued. However, even with the new legislation and regulations, section 3 is likely to continue to fall short of its promise because recipients and contractors need assistance in meeting their section 3 obligations.

We propose that HUD program funds be made available for job-related activities such as training, supervision of trainees, and job recruitment. In addition, we will request an authorization of \$25 million for fiscal year 1995 to support the creation of Economic Opportunity Centers, to establish employment and business initiatives with other Federal agencies including the Departments of Labor, Commerce, Health and Human Services, and the SBA and to develop a Section 3 Management and Technical Assistance Program.

The EOCs would be co-located with family investment centers and coordinated with the Public Housing Comprehensive Grant Program. We believe that with the adoption of these regulations and the funding of this program, something resembling the promise of section 3 could, therefore, more closely be realized.

I would like to thank you, Mr. Chairman, and members of the subcommittee, for hearing my opening statement, and upon completion of the comments of my esteemed colleague, Secretary Cuomo, I will be available to the subcommittee to answer their questions.

[The prepared statement of Ms. Achtenberg can be found in the appendix.]

Chairman GONZALEZ. Thank you very much, Madam Secretary. We have a notice of a recorded vote, so I think the wise thing to do would be to allow the members to go and record their vote, have a short recess and come back and have Secretary Cuomo report.

Mr. GRAMS. Mr. Chairman. I just have some questions and I have to go to another meeting, so I wonder if I could submit my questions and ask for a written response from the panel.

Chairman GONZALEZ. I had asked for unanimous consent that the members be allowed to do that.

[The information referred to can be found in the appendix.]

Mr. GRAMS. Thank you very much, sir.

[Recess.]

Chairman GONZALEZ. The subcommittee will please come to order.

As will happen in this unpredictable process known as the legislative process, we have had some procedural maneuvering that led to not one, but two votes. I think we will be safe at least for half an hour, but we can expect interruptions. The mood created by such things as the Crime bill and all of the things that went into the procedures that govern the presentation of the Crime bill on the House floor is hovering over this. So we can expect problems.

As we left, we were about to recognize Secretary Cuomo. But I was going to ask our very wonderful member of the subcommittee from New York, Ms. Velazquez, to introduce him.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

I would like to offer a special welcome to Assistant Secretary Cuomo. Andrew has brought to Washington the compassion which characterized his work in New York City on behalf of the homeless. I am very glad to see that Andrew has already made his mark in this administration. I expect that we will be receiving from him more fresh and thoughtful ideas for community and economic development, tenant empowerment, and helping the homeless.

Thank you.

Chairman GONZALEZ. Thank you.

Mr. Secretary.

STATEMENT OF ANDREW CUOMO, ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT

Mr. CUOMO. Thank you. Thank you, Congresswoman Velazquez, for that kind introduction. Thank you, Mr. Chairman and members of the subcommittee. It is truly a pleasure to join my esteemed colleagues here this morning.

In the interests of time and with the permission of the subcommittee, I would like to shorten my oral statement and submit the remainder for the record.

Before discussing what we are proposing at HUD, I would also like to take this opportunity to commend this subcommittee, and you in particular, Chairman Gonzalez, for all the work you have done over the past years in serving as a powerful voice and a consistent conscience for those Americans who are most in need.

I also wish to express my gratitude, as expressed by my colleagues, for the fast action on the recent passage of the Multi-Family Housing Property Disposition Reform Act of 1994.

As you know, in that legislation, of particular import to my office, Community Planning and Development was the Economic Development Initiative, so-called EDI, which strengthens local capacity for economic development in large and small communities throughout

the country by strengthening the 108 Loan Program attached to CDBG.

My role this morning and this afternoon is to discuss the key community development planning portions of the 1994 reauthorization of HUD's legislative program. We recognize that in the past this subcommittee, and you in particular, Mr. Chairman, has reminded HUD that while "Housing" is in the beginning of the Department's name, "Urban Development" is given equal billing. You have expressed concern that adequate emphasis be given to community development as well as housing, and that it be more directed to improving needy neighborhoods.

Under the leadership of Secretary Henry Cisneros, we have developed a number of approaches which we believe will accomplish that mission. The legislative proposals which we intend to submit to you shortly carry out a number of underlying themes or principles at HUD and CPD.

The first of these principles is that the ultimate regard and respect must be for the citizenry, and the community's ability to help themselves, the principles embodied in so-called bottom-up planning. This is a recognition that the best community development is created neighborhood by neighborhood with comprehensive solutions shaped from the bottom up by and for each community.

Accordingly, we will be proposing a community viability fund which would, among other things, provide community institution capacity building and foster community-based strategic planning and neighborhood development. A key element of this proposal is capacity building of neighborhoods and neighborhood groups that have not heretofore been part of the development process.

Second, we are working to develop a comprehensive approach to addressing community and neighborhood problems. Narrow, functional programs cannot solve complex problems of the individual family, nor of the neighborhood.

Part of this comprehensive approach will be reflected in the new consolidated planning and application process which we are implementing by regulation for our formula grant programs.

This consolidated planning approach both streamlines paperwork and enables communities to spend more time on comprehensive strategic planning and less time on petty, burdensome reporting and application requirements.

To apply this comprehensive approach to addressing the problem of homelessness, we will be proposing a reorganization of the McKinney Act Programs through creation of what we refer to as homeless assistance grants. These grants will be eligible to States and localities on a formula basis to match resources with needs. This reorganization will help communities design "continuum of care" systems to meet the needs of their homeless individuals and families in their communities.

Funding would follow McKinney Programs for eligible activities, but would allow communities to design the solutions rather than Federal categorical programs to dictate design.

This approach would be the first step away from an institutionalized homeless system of shelters and transitional components and rehabilitation centers toward more permanent mainstream ap-

proaches which focus on the ultimate needs, which are affordable housing, social services, and necessary income.

Funding would be available by formula, but will be contingent upon submittal and approval of a local comprehensive plan that addresses the needs of the homeless. For those local governments that choose not to participate, who don't submit an acceptable comprehensive plan, or who submit a plan which is not approved by HUD, HUD will then run a competition with the funds that that government would have been entitled to in that locality.

Twenty-five percent of the funds would be distributed to States for further allocation to communities that do not receive a direct grant. We will also be asking you to apply this concept of comprehensive strategic planning to one of our Nation's neediest geographic areas, the colonias.

Third, we must empower people to help themselves by creating jobs and providing them with the skills necessary to take advantage of those jobs, once created. Economic development, tied in closely with human development, must play the pivotal role in creating communities that work.

For this reason, we will be requesting that you authorize grants for a new program called Leveraged Investment For Tomorrow, the so-called LIFT Program, a project-based economic development program. It is designed to stimulate investment in economic and physical revitalization projects to improve the quality of life in distressed neighborhoods and communities. It will enable the Department to play a proactive role in creating local economic development partnerships with localities, CDCs, and other members of the community.

We will also be requesting authorization for a grant for empowerment zones and enterprise communities to undertake comprehensive economic investment activities in those communities.

These initiatives, along with our efforts to make better use of the CDBG Program for Economic Development, and the Existing Empowerment Zone Program we believe will help economic development to serve as an effective engine for community revitalization.

In sum, Mr. Chairman and subcommittee, these efforts, in our opinion, will strengthen our Nation's commitment to its communities by involving public, for-profit and not-for-profit entities in innovative strategies to build local capacity and improve urban design. We are interested in providing metropolitanwide approaches to solving community development problems, creating the necessary jobs and economic development activity, and meeting community development goals.

Again, I would like to thank the chairman and the subcommittee for the opportunity to join my colleagues here this morning. Any questions that you would have, I would be pleased to respond.

Thank you.

[The prepared statement of Mr. Cuomo can be found in the appendix.]

Chairman GONZALEZ. Thank you very much, Mr. Secretary.

I understand that Secretary Retsinas and Mr. Shuldiner have the need to depart in about 45 minutes; is that correct? So from my standpoint, we will strictly adhere to the 5 minutes, including

myself. I will divide that time by preliminary observations, in view of the fact that Mr. Shuldiner referred to the Crime bill, since I had mentioned it, and also I wanted to offset a little bit of Mr. Bereuter's emphasis on DC.

The District of Columbia has been the whipping boy of the Congress, and particularly when I came to the Congress 32½ years ago. Until 1967, when the limited home rule provisos were adopted that year against very strong opposition, it had been a tradition that the ranking Members who were on the District of Columbia Committee, were from the South.

And the Crime bills that we have been getting were first tried out on the District of Columbia. The District is still not exempt from being flogged by the Congress because of the very nature of the limited home rule that it was given. There is no question of what it was in the beginning. When I came here, there was an outgoing colleague about that time who would send what he would call a newsletter back datelined, "Nigger Capital, U.S.A."

It is hard to—and I don't like to evoke that word because I was hoping it had passed on, but it is still with us. The Crime bill, as I say, that we now have, including the President's recommendation, is obnoxious to me. They were all tried out, even after the 1967 act. In 1976, we had that very similar Crime bill, except it was the DC Crime bill.

Here is what that great, noble constitutionalist, Judge or Chairman Sam Ervin, said about it. He said, "The 1976 DC Crime bill is as full of unconstitutional, unjust, and unwise provisions as a mangy hound dog is full of fleas. It is a garbage pail of repressive, nearsighted, intolerant, unfair, and vindictive legislation." And that is what we have today.

The President's recommendations would extend the definition of allowable death penalty about 50 times. And it has other provisos. I have been against these going back to the last years of President Johnson, when the first cycle, what are we going to do about crime, came up. In 1970, after Mr. Nixon became President, that was the first thing he ratcheted up. And I was against it, and I said why.

In fact, in the 1968 bill, I sent a note to the President asking him to veto it, and he was very proud of the handiwork. It created certain things, and in fact there were sections, and I said on the House record that definitely half of it was unconstitutional. Sure enough, it didn't take long before the Supreme Court did rule it unconstitutional.

The 1970 so-called safe streets, and then the antiorganized Crime bill created a monstrosity as far as Anglo-American jurisprudence and the purpose of jurisprudence is concerned. It created for the first time a special grand jury, making it possible for an unscrupulous district attorney to do in anybody that he could target, added to the fact that under Title 18 of the United States Code, you can convict on a single witness' testimony, unlike State jurisdictions where you have to have supportive testimony of more than just one witness. So district attorneys who want to do somebody in can get hold of an established criminal who is in need of some consideration, offer him immunity in exchange for saying, didn't so-and-so do this, and were you a witness to it?

Now, let me tell you how bad it is. You can have a U.S. marshal—well, I don't know that they do it here, but you can receive a summons to go to the Seattle special grand jury. You don't know why until you get there. Then you are confronted with the fact that you are charged with having given a bribe to an individual 2 years ago in DC.

Now, you think I am exaggerating. Shortly after the effective date of that law, and all of this I put in the record as anticipatory, I said this is what is going to happen. It was just a handful of us that voted no.

Like today, how can you vote against the Crime bill? We have got to do something about crime, and all of these criminals. But the unjust thing is that if we start zeroing in on the District of Columbia because of the current headlines, there are a lot of charges such as alleged kickbacks in order for a handful of applicants to get certificates.

But those are charges. Of course, it is our capital, and we are concerned, but for HUD to say they are going to make sure that we dwell on this, on the District of Columbia, to the exclusion of other administrative duties, would be a mistake.

So I just can't help but speak out on that. I just think that the District of Columbia, until very recently, you had this question of what are you going to do about crime in the District of Columbia? It isn't safe for our constituents to come here. And you have the outlying areas saying that the crime they had was spillover from the District of Columbia. Everybody forgets that. But I remember it as vividly as if it were happening today. And I can't help but think that some of it is associated with the still lingering racial antipathies.

I want to compliment this HUD administration early this year in recognizing the very special needs for the District, in homelessness, and the grant that was given the District. Although of course, it provided for some matching funds for a district that has practically no tax base whatsoever, and a Congress that is reluctant to fully fund its operations. So it is caught between a rock and a hard place.

The other thing was just a question, and I will submit it in writing. I will just outline it here. It is what I said to the Secretary when he was last here. In the budget which the administration presented, which I am sorry to say is not too much different from President Bush's budget—you know, I am not a new Democrat. I am like Sam Rayburn said; a Democrat without prefix, suffix, and no apology. And what I see as a manifestation—and I said this before when they were forming the new Democrat is just Republican light.

We can't forget that we must know where we come from. That is the people. When our judgment day comes, let me say, there is only one thing we are going to be, and we are going to have that judgment day as surely as we are here. And the question is, are you for or are you against the people? That is the only question.

But this robbing Peter to pay Paul, I know that you are forced into that by OMB and the budget the President has formulated in order to carry out what I consider to be very, very seminal and

very wonderful proposals such as yours—your CVM, as I call it, I think that is great, Mr. Secretary.

But if you are not given the funds, then you have to subtract them from somewhere. So I call that robbing Peter to pay Paul, but you end up robbing Peter and Paul. That is the only thing I have against it.

My question was having to do with the rewriting of the merger of the Section 8 Certificates and the Voucher Programs and it will not include the current provisions limiting a low-income family from paying more than 30 percent of their adjusted income for rent. I wanted to know the rationale. But I wanted to submit that in writing.

With that, I recognize Mr. Bereuter.

[The information referred to can be found in the appendix.]

Mr. BEREUTER. Thank you very much, Mr. Chairman.

My comments and concerns, Mr. Shuldiner, were whether or not in fact this is a pervasive problem. HUD has taken over housing authorities for breach of contract in Philadelphia, Chester, Bridgeport, New Orleans, and Kansas City.

Now, my conscience is clear with respect to matters related to race and race baiting against the District of Columbia, so I am not going to be intimidated about the need to look at this.

The first level tragedies are not the loss of taxpayers' funds and not the loss of confidence of the people in the system in this city. The first level tragedies are the people who are dependent on this system to deliver housing to people who do not have housing, people who played it straight, and HUD has said this is a troubled authority for 10 years. I think it is time that you tell us what you are doing about it, in good time. But this is not, it seems to me, the time to spend my time on an oversight hearing.

First of all, I want to tell you that, Mr. Shuldiner, I like some of your comments about greater flexibility, delegation of more responsibility to the local level and housing authorities, where it is appropriate, where we have a record of well run housing authorities.

I would like to call your attention to a bill I introduced on Tuesday, H.R. 4165, which would allow public housing authorities the opportunity to contract with HUD, contract out of many restrictive regulations when you think they meet proper criteria. So I would like your reaction to that at the appropriate time. It probably hasn't been printed yet so I don't expect you to be knowledgeable about it.

I would like to ask about the Modernization Program, Mr. Shuldiner. What is HUD doing to unclog the backlog?

The Senate Appropriations Committee directed the Department to conduct an initial quarterly pipeline report on the Modernization Program. Can the funds, acceleration of funds, be accelerated for the streamlining of HUD's regional structure, have an impact on that problem?

I do have a question for Mr. Cuomo. In case I don't get a chance to ask it, there was something before said about the LIFT funds coming from the CDBG funds. HUD seemed to move back from that, I am pleased to say. Can you tell us what the source of funds will be for the LIFT initiative, if we have time to get to that?

Mr. Shuldiner.

Mr. SHULDINER. First of all, let me just say, while I have not seen your bill, we are looking, as part of our regulatory review, we are reviewing all of the regulations that we have, and one of the key components is the understanding that high performing housing authorities should in fact be treated differently, should have reduced requirements or oversight.

We need to do that: One, because they are entitled to it; and second, because we really don't have the resources to monitor people we shouldn't be monitoring in the first place. I am looking forward to looking at your proposed legislation.

In terms of the modernization of the pipeline, I am happy to report that we are seeing significant improvement. In 1993, approximately \$2¼ billion was obligated. There has been an average increase of about 16 percent a year in overall obligations.

In fact, recognizing that the 1993 money was pretty much made available the last quarter of 1993, fiscal 1993, if we only look at 1992 allocations and prior to that, there is unobligated \$3.363 billion, or approximately 1 year's worth of modernization money, which I don't believe is a bad record per se.

Overall, if you include the money that was allocated at the end of 1993, it is about \$6.2 billion. So we are beginning to see real improvement in the obligation rate of the prior years.

Just quickly, that \$3.3 billion is made up of \$434 million from 1990 and before; \$919 million from 1991; and then approximately \$2 billion from 1992.

So the pipeline is beginning to move more rapidly. We have been making changes to the program that hopefully will help authorities obligate and spend their money, and we look forward to being able to provide you with that information on a quarterly basis.

Mr. BEREUTER. Thank you.

Can we get Secretary Cuomo's response?

Mr. CUOMO. Thank you, Congressman.

On your point about the LIFT Program, there was a question, as you point out, about where the funding was coming from, and especially that the funding was earmarked as a set-aside from within CDBG.

We are at this point preparing a budget modification which will restore CDBG to the full funding level and find additional funding for LIFT. We are preparing that modification now. It should be coming down within the next several weeks, and at that point we will identify the source of funding.

Mr. BEREUTER. Would you convey to the Secretary our appreciation for him taking our concerns about this quite seriously and working on that effort.

Mr. CUOMO. Yes, sir.

Mr. BEREUTER. Thank you.

Chairman GONZALEZ. Thank you very much.

At this point, before we again break for a vote, I would like to recognize Mr. Mfume in turn to present to the subcommittee a very distinguished young, attractive American.

Mr. MFUME. Thank you very much, Mr. Chairman. May I also add a very intelligent young American whose caring and sensitiv-

ity, particularly to the housing needs of this country, have not gone without notice to members of this subcommittee.

Kimberly Aiken is the reigning Miss America. She hails from South Carolina. She distinguished herself particularly with her platform position statement entitled "Families First: Addressing America's Homeless Crisis."

Some of you will be familiar with the fact that earlier this month, there was an announcement that Miss America would be heading a national food drive for the homeless. She is the founder and the president of Homeless Education and Resource Organization. She has traveled the length and breadth of this country as Miss America not so much to stand before cameras as much as she has stood in homeless shelters, working with homeless people in a very real and different way.

I say that because it underscores the power that we all have individually in our own roles when we are in fact committed to something.

And so because of this subcommittee's great work under Henry Gonzalez and because I know of the caring role that Mr. Bereuter and members of the other side of the aisle have brought to this issue, I thought it was important, Mr. Chairman, that we would take a moment and acknowledge the presence of Miss America, who by the simple eloquence of her example is leading America in a new and different way with a new and different sensitivity to the issue of homelessness.

Ms. Aiken.

Chairman GONZALEZ. Do you wish to say anything to the subcommittee, Ms. Aiken?

Ms. AIKEN. Yes, I would.

Chairman GONZALEZ. Why don't you come over and take this chair next to Secretary Retsinas. We have a couple of minutes.

Ms. AIKEN. Thank you very much, Mr. Mfume, and also Chairman Gonzalez.

It is a pleasure for me to be here to be able to speak with you for a couple of moments. I know everyone has to go and vote. But I have the unique opportunity this year as Miss America to travel the country far and wide, and at a grassroots level, I am able to speak to all types of people, colleges and universities, women and children and families in shelters. Also, I am able to speak to corporate groups.

And it has just been a very enlightening experience for me to be able to, in one concentrated year, to get the experience and to be out there working every day on the issue, and knowing how it touches the lives of so many people to know that there are people in their corners.

And as I speak to you today, I would just like to ask each of you, as you consider legislation and all of the things that you do every day, I know I would just like to ask all of you not to forget the people, the people that you are working for. It is so important that their needs are in mind always.

A lot of people have had to combat the thinking that homeless people want to be homeless and that they are lazy and they have no motivation. And I just hope that each of you can remember that

a lot of these families are homeless not so much from a fault of their own, but because of circumstances and a lack of opportunity.

So I thank you very much for that. It has been a pleasure for me to be here. I have spoken to quite a few people this afternoon, and will continue. I am here in Washington quite a bit, so this won't be the last that you hear from me.

Thank you.

Chairman GONZALEZ. Thank you very much.

I believe we have had the second bell, so we will ask for a brief recess to record our votes.

[Recess.]

Chairman GONZALEZ. The subcommittee will please come to order.

We may have another short period of time, so we want to proceed before we have another rollcall. At this point, I believe we have Mr. Vento.

Mr. VENTO. Mr. Chairman, I guess we have questions here that we would like to submit. We will probably submit questions for the record. I guess permission has been sought and granted for that purpose, and I hope that I am not repeating questions that you might have asked, Mr. Chairman.

But for Assistant Secretary Cuomo, the thoughts on McKinney, leveraging resources for human services and the match issues, I was just wondering what review had gone on, Secretary Cuomo, with regards to the match changes that are in the administration proposal on the McKinney Act.

Mr. CUOMO. Congressman, you are referring to—

Mr. VENTO. The 25-percent match requirement in your proposal, yes. We had a 50-percent match historically in most of the programs associated with McKinney.

Mr. CUOMO. As you know, our legislation has a proposal which would reorganize the McKinney Programs, keep the programs intact for eligible activities, but allow the local government the opportunity, the chance to fashion a comprehensive homeless plan using those eligible activities. If that plan met with HUD's acceptance, then that plan would be implemented.

Within the guise of that proposal, we are recommending a 25-percent match across the board. As you know, the various McKinney Programs now have different levels of match. And while the concept of a match is attractive as it allows the locality to be vested in the plan and maximizes resources, there is also the old saying that you can't get water from a stone. And many of the not-for-profit groups applying for grants don't have the funds to match. Many of the local governments that are requesting funds to assist the homeless don't have the resources.

Also, remember, Congressman, that the funding for McKinney we are proposing would go up significantly. So, therefore, the match would go up significantly.

Mr. VENTO. I think that actually most of the McKinney Programs fund on a one-to-one match. The McKinney Programs, although I commend you for the substantial increase in authorization for funding, they are at their best, I guess, an extension of what is a substantially local and not-for-profit effort.

And so in my analysis the common sense here was that there was a lot of money being spent, I think it is important that in areas where it wasn't or they couldn't make that, that we certainly offer whatever relief, whether it is 50 or 25, plus I think then we had focused on that being a relatively soft match in terms of service and so forth.

So I think our goal is principally the same. I think that if there are special insights into it we can work on that, but I wanted to alert you to that reasoning at the very least.

There are two aspects here, as I look at some of the initial drafts of the plan. I don't know if you had the most recent one that has wended its way through the process, Mr. Secretary, but one of the concerns was I think there was, it seemed to me, a focus on public housing issues, in other words, in terms of the plan that has developed in regards to McKinney.

Let me tell you what I mean by that. What I am talking about is that it focuses on section 8, it focuses on CDBG, it focuses on HOME, it talks about all of the HUD-based programs.

And I think that really in terms of looking at a community plan, what we need to look at are other elements such as eviction, such as, you know, what the local effort is in terms of these plans, such as guardianships.

What I am suggesting is that these other elements are factors. In other words, they have found in terms of some of the work, as you are well aware, in New York that a substantial number of the homeless become homeless because they have been evicted. So what I am trying to do, because we take the lead in this subcommittee and your good work on this, and sometimes we get into thinking in terms of public and assisted housing and community development and not maybe spread that net broad enough in terms of the types of analysis and components that ought to go into the plans.

So I am interested in at least finding out as much as we can, a broader nature and effort in terms of the plan. Do you have any comment on that?

Mr. CUOMO. Yes, Congressman, I do.

On your previous question, just to clarify my response, as you are aware, various McKinney programs have different match requirements. For example, the match requirements for McKinney Act programs range from zero to 100 percent, depending upon the program and the type of activity.

So we were trying to come up with a uniform match which would apply across the board and would be one that walks the balance between vesting the locality in the plan but also making it affordable.

As far as your point about the ultimate need of permanent housing, what we are proposing is, allow the local government the opportunity to fashion its own solution for homelessness, using the eligible activities from McKinney, rather than the Federal Government saying, this is what you shall do, you shall do 10 percent SROs, 20 percent transitional, regardless of your need in the local community, without even knowing what your need is in the local community.

We would allow the local community to come up with a comprehensive plan. If their plan makes sense, fund their plan, rather than vice versa.

One of the things we would look for in the plan is that over the past years there has been a tremendous emphasis on transitional housing, shelter housing, and the proliferation of those emergency-type measures. Our philosophical question would be, to what end?

Transitional housing has a very important role in the system. Shelters have a very important role in the system.

The ultimate need is permanent housing. And before a locality designs a homeless system, the question is, where does the permanent housing come from at the end? Where does the long-term social services come from at the end?

In that regard, we would anticipate that a plan, to be accepted and to be effective, would have to address that question.

Possible sources for permanent housing are the HOME Program, the CDBG Program, and public housing section 8. Also, what other Federal dollars are available? What other Federal social service dollars are available?

Let them put them all on the table and coordinate them at the same time.

Mr. VENTO. That is exactly, of course, my point. I don't question the need to have a correlation and develop a sequence in terms of how the programs are used. But the issue is, for instance, if we have an excess of property disposition rules in terms of vacating Federal properties and how that is coming into it.

I just want to make certain, I don't think, again, there is a disagreement in terms of the overall plan. I think it is quite useful.

Let me just turn, Mr. Chairman, to Secretary Achtenberg. We have encountered some concern, there has been ongoing concern, and I don't know that you have flagged about this particular issue or talked about it in your statement, as I haven't had time to study the statement, but I assure you I will.

There, apparently, have been some concerns about church-related, religious-related affiliated housing and other types of assisted living housing programs in terms of using the church name or referring to it in terms of being in conflict with rules dealing with public access, and some ad problems, where they use the ad. Are you aware of any of that concern?

This came up in a different context a couple of years ago and it seems to be in a new context now. So it is not new to this HUD.

Are you aware of the concerns?

Ms. ACHTENBERG. I think I am aware of the general concern, Congressman. The issue, as I understand it, relates to the Fair Housing Act's prohibition against discrimination in housing on the basis of religion, and therefore to what extent religiously affiliated housing providers may make reference to their religious affiliation in advertising their availability for tenancy.

The regulations that have spelled out the extent to which those references can be made were promulgated by HUD in 1989 after the 1988 amendments, in the context of a whole host of regulations that were promulgated at the time, the guideline being that if reference is made to the religious affiliation of the housing provider in the advertisement, or if a religious symbol is used, then at the

very least it needs to be accompanied by a statement in the advertising that indicates that the provider is an equal opportunity provider.

That is the HUD rule as it currently stands, and to the extent there has been some misunderstanding of that, there have been some articles in the press somehow misconstruing that requirement or whatever, but that has been a long-standing requirement.

Mr. VENTO. It sounds reasonable to me, that it ought to say that it is nonreligiously affiliated, even though it is referred to as the Catholic or Lutheran Home.

One of the other concerns, overall you have a responsibility under law to establish insurance, homeowners insurance redlining issues, I understand, both for PMIs and for FHA Programs. Can you tell us what the status of that is?

Ms. ACHTENBERG. With regard to PMIs and homeowner insurance?

Mr. VENTO. Yes.

Ms. ACHTENBERG. Under the Fair Housing Act, given that homeowners insurance as well as private mortgage insurance relate to the—it is actually the terms and conditions of housing, the courts have held they are properly therefore within the regulation of the Secretary of HUD, related to his powers under Title 8 of the Civil Rights Act of 1968 as amended in 1988.

We have at the Secretary's direction set up a special unit inside the Office of Fair Housing and Equal Opportunity to study the issue of the insurance redlining and to put forward proposed regulations that would more fully flesh out the requirements of providing equal insurance opportunities to all persons without respect to their race, national origin, gender, physical disability, or family status.

So the budget for 1995 reflects the dedication of some HUD personnel to this new office, this new unit within the Office of Fair Housing and Equal Opportunity, to be dedicated to the issue of defining insurance redlining under the Fair Housing Act.

Mr. VENTO. Thank you.

Mr. Retsinas, as you know, I have had a long and strong interest in FHA, and I am pleased to see that the administration is responding and the funds and other elements are turning in the direction at least for the Single-family Program, specifically for single family, nobody disagrees and there is a relenting in terms of multi-family, which the chairman and the House and Congress has given you special authority to deal with now.

But your testimony is not only related to the maintenance of the program but also some exciting new initiatives. One such, of course, indicates raising the high-cost mortgage limit from 75 to 85 percent, and of course, raising the floor of the mortgage from \$67,500.

Can you report briefly to the subcommittee at this time, if you did not in your testimony, on what the status of that particular proposal is.

I know there is a gauntlet to run before most of these good ideas are actually presented in legislative form.

Mr. RETSINAS. Thank you, Congressman. Thank you for your past and current and future interest in FHA.

We outlined this morning the legislative initiatives that would allow us, we believe, to revitalize and expand the FHA programs. As it relates to the specific question, we are prepared next week in the legislation to reference the increase in the ceiling loan limits, to index it to 85 percent of the Fannie and Freddie limits.

We believe, as I said in my prepared text, that that would open the door to increased use of that program, particularly in certain market areas throughout the country, where access to that program for moderate-income families who lack the downpayment has been precluded.

As it relates to the issue of the floor, you are correct to observe that this is a city that has numerous gauntlets and processes to go through. We are still going through those processes.

Mr. VENTO. We hope it doesn't end at the guillotine.

Mr. RETSINAS. We, certainly, hope it does not.

We are certainly concerned, however, that not only do we look at the proposal in light of the current cost of housing, which has changed substantially the last time that issue was addressed, but also, more importantly, it allows us an opportunity to simplify the process. We have too many limits, and the more we simplify it, we make it more understandable to the primary beneficiary, future homeowners.

Mr. VENTO. Thank you, Mr. Chairman, for the extended time for questioning I was permitted.

Chairman GONZALEZ. Mr. Baker.

Mr. BAKER. Thank you, Mr. Chairman. I will be brief in asking questions of each of the witnesses that remain.

Secretary Achtenberg, I am interested particularly in the provisions with regard to the CDBG penalties with regard to a local community's discriminatory practices that might be proposed. I am interested in understanding better the legal authorities by which HUD may intervene in a CDBG grant process, if HUD determines there is discriminatory housing process by some local agency within a particular governmental entity.

My reason for concern, beyond the issue of penalties for the CDBG Program, is that in many communities the mayor may be the appointing authority of the housing authority membership but the local agency has a separate and distinct legislative authority. The appropriating authority may be the action of another local official.

Those are the procedural elements that I think would place fault on individuals or governmental entities which are not responsible for the practice you identify as being inappropriate. In my judgment, that in itself would be a discriminatory policy. I hope we can look at that more closely.

Mr. Retsinas, I want to again, in light of our past conversations and your courteous visit relative to the Federal Home Loan Bank study, just renew my request for that study at the appropriate time and move quickly over to the question of the Desire Street housing project, which I should more appropriately direct to Mr. Shuldiner, but we have had moving targets with regard to the level of funding requested for that program.

First, I understood it was \$85 million. I have later heard it is \$100 million. The latest figure is \$120 million. I would like to know

what the latest available figure for that project is, in light of the fact that in New Orleans there are vacant houses, and it is one of the most troubled projects in the country.

My concern is that the directions of the initiatives of the agency appear to be more in mobility and self-sufficiency in allowing people to make more choices as to where they can live. But putting more money into Desire Street, that seems to me antithetical to good logic.

Second, I find the crime problem in Desire to be totally unacceptable. Women and children actually barricade themselves in units at night to protect themselves from personal invasion, and to think that we are going to have a safe and secure environment by simply spending more money in that troubled particular unit seems to me to be an ill-advised policy. I would certainly respect your judgment in the matter and ask for a view.

Finally, it seems that most of the programmatic representations this morning do not follow the path outlined by Secretary Cisneros before this subcommittee just briefly ago, in that he was saying we need to get control of HUD's programs, we need to understand where we are going and whether we are efficiently or not efficiently using our resources.

What I am hearing today are more programmatic initiatives of great scope and comprehension which frankly look like an NFL playbook. Simplification might seem to be a good goal at this point.

I might say to respond briefly to my respected chairman's comments earlier as to the directions and reasons for some concerns about these programmatic initiatives, I think it important to recognize that there are many people in America who are indeed troubled by our housing initiatives and what we are doing with the Crime bill, but for a different reason. Many victims of crime in public housing are in poor neighborhoods, spend more time in hospitals than the criminal spends in jail.

I can speak to that from personal knowledge. Many families who try to raise a kid in a broken home and give them an education find that when the kid finally makes it and goes to college, there is no money for further education because they don't qualify for any government programs.

What we are finding is a government spending \$100,000 to confine a prisoner in a cell and most American families can't afford to buy a \$50,000 house.

We are finding that the government spends millions of dollars and, under the proposed Crime bill, will spend more on rehabilitation not only on people who have no respect for other individuals but no respect for our country. Yet, those who work and those who try are continually taxed and told, we are going to take your money and send it back to a program that makes sense.

Yes, Mr. Chairman, there is indeed deep frustration, and I have the greatest regard for your commitment to civil rights and little people everywhere. But we have to recognize that people who believe in America, people who work, people who want an education for their kids, people who want to be safe, have a right to be safe, whether black or white.

We have missed the point in America. And these programs we are proposing are not going to get us on track. We have to make

criminals responsible for their actions. We have to put them in jail. We have to educate them. And we have to tell them, if you do it again, buddy, you are going to be put away for a long time. That is the direction we ought to go in.

Chairman GONZALEZ. I am not going to bite on that one. I have already had my say, and we are going to leave that for——

Mr. BAKER. Another day?

Chairman GONZALEZ. No, for the facts as they have been established.

You referred to lack of educational opportunity. If you look at the track record of what was done in the 1960's, there was a Federal program, it did work, and it was done away with by the succeeding Republican administrations. And I can give you the statistics as they happened in my district where I think I am well versed. But I don't want to go into that. I think that speaks for itself.

I can't disagree with you that certainly a criminal act needs to be addressed and punished. But it is more complicated than a simplistic desire to do that.

Anyway, Mr. Barrett.

Mr. BARRETT. Thank you, Mr. Chairman.

Mr. Chairman, I don't have a speech to give but I do have perhaps a couple of questions for Mr. Retsinas.

With respect to the FHA maximum amount for loans, FHA raising the ceiling. I come from an area that has a very healthy private mortgage insurance company, and the argument I am hearing there is that the FHA is moving quite aggressively into the private sector, an area where it doesn't need to be. By raising the ceiling, you are actually moving into a market that is there, that is healthy, and that it is just simply an attempt frankly from their perspective to move a job from Milwaukee, Wisconsin, to Washington, DC, something I am quite sensitive to.

Mr. RETSINAS. Me, too.

Mr. BARRETT. I would like you to address that.

Mr. RETSINAS. On the issue of competition, if you will, let me answer in a couple of different ways, if I could, because it is an important issue.

One, the FHA Single-family Mortgage Insurance Program is very unlike most government programs, which is to say it must respond to the discipline of the marketplace. That is to say, it is not a grant program where an individual or a community or an entity receives money. It is not a program where people are forced to participate.

So in the sense of will it help, will it make a difference, will people have access to it, the marketplace will be the determinant of that. And it is our conclusion that in certain high-cost areas of the country, there are moderate-income families who are unable to sort of pass the mustard, if you will, of conventional financing, with or without private mortgage insurance. If that is the case, we believe the increased mortgage limit could lead to increased ownership.

On the second issue, and I think somewhat more germane, is one of the initiatives I outlined that we will be submitting next week that I believe is crucial to the long-term future of the Federal Housing Administration, and that is asking for your permission for the authority to negotiate what we have called risk-sharing agreements.

One of the parties of that agreement, with whom we have had some preliminary discussions, is private mortgage insurance companies, but those discussions cannot culminate until we get appropriate legislative authority. We are also talking with the secondary market; we are talking to the Federal home loan banks; we are talking with State and local agencies; a number of different actors.

But it seems to me the future lies in forging different partnerships between a variety of different actors. This is a unique window of opportunity in this interest rate environment; even today it is still a window of opportunity, and we need to find ways to be creative and reach out. And I am cautiously optimistic that if you were to grant us the authority we would be able to forge those partnerships.

Mr. BARRETT. Let me ask you this with respect to your duty or your mission with respect to low-income people. My sense is that many builders who get involved in FHA are going to naturally move close to the ceiling because there is probably more profit to be made by being close to the ceiling. So by raising the ceiling, you are in effect moving the FHA market from low-income people to more middle-class people.

Mr. RETSINAS. I don't think so. Let me explain why I don't think so and see if it makes sense to you.

Over the years, the Federal Housing Administration's market share, that is to say, influence in the marketplace, has dwindled and diminished substantially for lots of reasons that are well beyond the question and the time we have here. Therefore, I think the issue of what influences house prices is primarily the larger marketplace, and indeed it will be the marketplace, it will be the cost of building housing, and there are pressures on those costs and, more importantly, it will be on the ability of people to pay for housing that will influence marketplaces.

The mission of FHA is an interesting one, as you well know. In many cases, it has two missions. Its primary mission must be to maintain a single-family program to increase homeownership and to make sure that people who are shut out of the marketplace have a bridge, have a way to become homeowners. At the same time, the Congress and the statute is very clear, it has to be run on a self-sustaining basis.

We have a fiduciary responsibility. We need to balance the primary mission of expanding homeownership, particularly for low- and moderate-income families but we need to do that in a business-like manner. The various initiatives we have try to achieve that balance. There is a balancing act. And if we were to be exclusively on the low end, I would question whether we would be able to uphold that fiduciary responsibility of having the fund be self-sustaining.

That is the balancing act, and I am hoping that these initiatives such as risk sharing can better help us achieve that balance.

Mr. BARRETT. Thank you.

Chairman GONZALEZ. Mr. Knollenberg.

Mr. KNOLLENBERG. Mr. Chairman, thank you very much. I am sorry that Mr. Shuldiner had to leave. Apparently, he is not in the vicinity.

Chairman GONZALEZ. We had announced that he and in fact Secretary Retsinas were supposed to leave at about, I think it was 11:45. And they stayed over.

Mr. KNOLLENBERG. I appreciate that. I appreciate the testimony of the individuals, but my question really is for Mr. Shuldiner, and his testimony.

Chairman GONZALEZ. You can submit it in writing.

Mr. KNOLLENBERG. I understand that.

I want to make one comment because this is something that I think should be responded to maybe in a fashion which I will suggest, Mr. Chairman, and you can give me your thoughts. When reading through the preliminary summary of the proposal, I noticed an item designated PIH-62, called the Public Housing Resident Employment Demonstration. This would give certain PHAs the flexibility and creativity to experiment with new methods of encouraging work, something that I subscribe to.

This provision in his commentary is strikingly similar to a market rent demonstration program, which I proposed in a rent reform proposal some 2 months ago. In fact, I proposed this back in 1993 in August. And actually 2 months ago, I submitted to the Secretary a request for an executive comment specifically on this provision. And I was going to ask him if he could explain the history behind his proposal and that perhaps that might have been drawn from my proposal.

What kind of review, what kind of history, what kind of study went into that. And on page 3 of his testimony, he has a mirror image of the language in my bill that suggests that perhaps it might have been incorporated word for word or borrowed word for word. That was the question that I had for Mr. Shuldiner.

I would like to, Mr. Chairman, if I could just have your attention for a second, I would like to suggest that if there were a way before any legislation is submitted, that we could have a hearing that I would have the right to request his response to that particular question, at least I would think that before legislation is proposed in final form, that we would have some opportunity to make that question relevant and get a response to it from Mr. Shuldiner.

Mr. VENTO. Mr. Chairman, is this a case of patent infringement that we are dealing with here?

Mr. KNOLLENBERG. Could be.

Chairman GONZALEZ. Let me answer it this way, Mr. Knollenberg. I think if you submit this question to the Secretary, he will provide you an answer in writing without the necessity of repeating. We have had hearings.

Mr. KNOLLENBERG. I understand, but you see, he is not at this hearing and I wanted to ask that question. That is the only question I had for anybody on that panel. The rest of them have been very thorough.

Chairman GONZALEZ. That is true, but he would, in fact, I think do a better job of answering in writing after he has had a chance to analyze in your question.

Mr. RETSINAS. I have been informed that my colleague, Assistant Secretary Shuldiner, will be returning in a couple of minutes if that would be helpful. He will, of course, answer in writing, but he will be here in a few minutes if that would be helpful.

Chairman GONZALEZ. We are going to have to go vote.

Mr. KNOLLENBERG. Mr. Chairman?

Chairman GONZALEZ. Yes?

Mr. KNOLLENBERG. How soon do you expect them, do you know?

Mr. RETSINAS. Literally, within a couple of minutes.

Mr. KNOLLENBERG. We do have a conflict in terms of voting and hearing from him. I will be here.

Chairman GONZALEZ. But what I am trying to find out is how much time we have now if the second set of bells has rung, then we want to break. In the meantime, I will recognize Ms. Waters.

Ms. WATERS. Mr. Chairman, I would like to reserve my discussion until we return, but if you have time here, I would like to indulge my colleague, if I may, in trying to get an understanding about what it is he was asking Mr. Shuldiner and what is happening.

You believe that your proposal has been adopted in some way and you have not been given credit for it? Is that your concern?

Mr. KNOLLENBERG. The concern is not piracy. That doesn't bother me. What I am concerned about is that I did make a request for an executive comment from the Secretary 2 months ago and that didn't come. What I see now is a bill that seems to mirror almost totally in language and all what was in my original bill, and what I had finalized in August 1993.

What I would like to know is just what is the history so that when we do finally get down to a vote in this body, what is it that we are actually voting on. What kind of review process did the group go through to come up with the language that is here.

I am not suggesting that there is anything wrong with borrowing from the ideas presented by anybody, it is just a matter of where did it come from, what is the history? Will we have some opportunity before we actually vote in knowing full well what is there, what it is, and I would like to have Mr. Shuldiner's commentary on that.

Chairman GONZALEZ. He is here now, and this is the second set, we have 5 minutes.

Mr. KNOLLENBERG. Would it be appropriate if I raised that question at this point?

Chairman GONZALEZ. Well, that is what you said you wanted to do.

Mr. KNOLLENBERG. That sure is.

Chairman GONZALEZ. As the pride of authorship, let me advise the gentleman that many years ago we had the same proposition offered by a gentleman from Louisiana, Mr. Roemer, and then we had another one offered later to Mr. Roemer, so it isn't anything new.

Mr. KNOLLENBERG. And I am not offended by that at all, believe me.

Chairman GONZALEZ. I am not saying that you did.

Mr. KNOLLENBERG. I just want to know from whence it came. Mr. Shuldiner is back and I have that question and I appreciate his returning.

Chairman GONZALEZ. You may proceed.

Mr. KNOLLENBERG. I will try to be brief and, admittedly, you don't have the benefit of having heard this the first time all the

way through, but while reading through the summary, I mentioned that there was an item designated PIH-62 called the Public Housing Resident Employment Demonstration that would give certain PHAs some flexibility, some creativity in encouraging new methods of work for residents.

The provision is strikingly similar to a market rent demonstration program which I proposed in rent reform bill H.R. 2957. My point is, 2 months ago, I requested an executive comment from the Secretary on this particular provision. As of yet, we haven't gotten that. And I noticed on page 3 of your written testimony you have some reference, paragraph 3, to words or wording that is in fact a mirror image of what I had in H.R. 2957.

What is the history behind your proposal and is it different from mine and what kind of study or review got you to that point of coming up with the program that you presented?

Mr. SHULDINER. Let me just say that the particular item you are talking about is beyond the general rent reform. It goes specifically to a demonstration that would be a demonstration for purposes of allowing our policy development and research office to examine how it worked out.

From our perspective, that was their recommendation to us. So in reality, I cannot say where they came up with it. I mean, this was something that was suggested to us by our policy development and research office to be able to really see what the impact of this more flexible rent rules would have. I would be happy to get that answer for you, though.

Mr. KNOLLENBERG. Would you?

Mr. SHULDINER. Yes, sir.

Mr. KNOLLENBERG. I would like to have that.

[The information referred to can be found in the appendix.]

Thank you, Mr. Chairman.

Chairman GONZALEZ. The Congressman mentioned that he had addressed a letter, you said, 2 months ago?

Mr. KNOLLENBERG. I am sorry?

Chairman GONZALEZ. You said a while ago that you had addressed a letter. Was it 2 months ago?

Mr. KNOLLENBERG. Approximately, 2 months ago.

Chairman GONZALEZ. Asking for?

Mr. KNOLLENBERG. A response.

Chairman GONZALEZ. And you addressed that to Secretary Shuldiner?

Mr. KNOLLENBERG. No, it was addressed to Secretary Cisneros. And I understand he is willing to come back at some future date prior to the actual submission of legislation.

Chairman GONZALEZ. Well, they still have not submitted their proposed legislation and we are hoping that it will be done before we complete our hearing and our markup. But in the meanwhile, the Secretary has promised that he will return.

Mr. KNOLLENBERG. That is what I am after, just a review so that before we get into that situation where we have to pass on judgment, we will have total information available to us and the perspective of the Secretary.

Thank you very much. Thanks for coming back.

Chairman GONZALEZ. Would you prefer, Ms. Waters, to return?

OK. Then we will recess briefly.

Ms. WATERS. Does Mr. Shuldiner have to leave?

Mr. SHULDINER. I was supposed to be a luncheon speaker at an organization. I don't believe that I can get there anyway, so I would be happy to answer your questions.

Ms. WATERS. This question is in relationship to my rent reform proposal.

Chairman GONZALEZ. I think we better go vote.

Mr. SHULDINER. Congresswoman Waters, I accede all authorship to you.

Ms. WATERS. I really do have a proposal.

Chairman GONZALEZ. Fine, we will—

Ms. WATERS. If you didn't take mine, would you take it, please?

Chairman GONZALEZ. If Secretary Retsinas has to leave, I imagine we could excuse him.

Mr. RETSINAS. Thank you very much.

Chairman GONZALEZ. Thank you very much.

[Recess.]

Chairman GONZALEZ. The subcommittee will come to order.

Pending the arrival of Ms. Waters, I don't really want to prolong, I still will submit questions in writing because I will ask, for instance, about some statistics of Mr. Retsinas on the Housing Trust. And that is better done by giving him the opportunity to get the research and get the statistics rather than trying to guess what it is here, or he may have it at his fingertips.

But the only thing that occurred to me was, with respect to your operation LIFT, Secretary, my question, could that be done under 108?

Mr. CUOMO. No, Mr. Chairman, the economic LIFT Program goes much further than the 108 Program. The 108 Program that was passed with the Economic Development Initiative, it is called EDI, allows the 108 Program to be used in combination with the grant. The grant can only be used as loan loss reserve or as an interest writedown with the 108. LIFT would go another step and provide a grant fund that would have more flexible use, could pay principal, could pay a contribution share for a partnership. So it extends and goes further than the 108 EDI proposal.

Chairman GONZALEZ. See the original, which incidentally was one of the things I deplored, had a very interesting hearing. In fact, a Member now was a member in the last Congress of this subcommittee and now is over in Appropriations. From Alexandria, Congressman Moran, who was mayor of Alexandria.

We had a very interesting hearing in which the Reagan administration's virtual elimination of 108 was their biggest plea to us because they needed it. It was actually seed money that would trigger the locality's ability to get into substantial alleviation of their housing problems.

So in these areas a big problem was the doubling and tripling of families in what is supposed to be single-family dwelling. Of course, we have even more density now in that respect.

So, we first saw that and that was very early into my chairmanship of this subcommittee, which came about in 1981. Then I was going to ask other questions like the origin of some of your ideas, but you all are so young and I would be referring to something you

may not know of. I have been on this subcommittee since I came to the Congress 32½ years ago. That was a different world.

The subcommittee consisted of 7 members until I came on board and made the number 8, over the objection of the then-chairman from Alabama, Chairman Rains. The full committee consisted of 30, and I made number 31. I came in between sessions in a special election. What I didn't realize, and was not informed, was that my experience back home working for the San Antonio Public Housing Authority followed me up here because I worked with and under Marie McGuire, who is a real name in housing, and President Kennedy appointed her the National Public Housing Commissioner. This was before HUD.

So when she found out I had been elected and was coming up, she moved in on the White House level and asked that I be assigned to whatever Housing Committee existed here. But this was at a time when there was no big demand to belong to the subcommittee, 1961, 1962. In fact, in the 1960's, you didn't have the programs, or the grant programs.

It was not until after the formation of HUD, but more particularly the advent of the block grant approach, which came under the Nixon administration and the revenue sharing concept, which I had my doubts about, mostly because I have been very privileged serving on the local legislative and on the State legislative levels in the Texas State Senate. It was a great inspiration to be able to come to the national level and see that all these programs, or rather these needs that were not being addressed on the local and State level, were on the national level.

And I joined then Senator Hubert Humphrey on some initiatives that had not been introduced in the House. I just couldn't begin to recite the thrill of being able to coauthor the Economic Opportunities Act of 1964, the so-called war against poverty. Some of the surrounding programs that anteceded that, in which we found great difficulty because of the then-barrier to getting educational programs targeted for local areas, with the barrier of the State. The big fear was that the Federal Government would take over the local public school systems and dictate.

The first amendment I brought up had to do with providing a grant program for areas in which English was a secondary language. It would provide grants so that the more impoverished school districts would be able to offer school teachers that had the education, and background, such as bilingual ability, and able to hire them. But I didn't have a chance with the Labor and Education Committee.

In fact, I wanted to get on the Labor and Education Committee, but Chairman Adam Clayton Powell didn't want to enlarge that committee. That is how I ended up on Banking. But I became number 31, which was fine, because my expertise on the local and the State level was also finance. I was chairman of the State Senate Banking Committee, so it was fine and dandy.

But that amendment, there was a very able Congresslady from Oregon, Miss Edith Green, who was handling the vocational education amendments. She told me, let me have your bill, and we will put it on as an amendment, and so we did. My first session here, that got on the bill, but it wasn't funded. And then when the war

on poverty came over with Hubert Humphrey, for instance, Title VII, community action, that was my contribution. That phrase, community action. And the rest is history.

Well, I think Ms. Waters probably found it very difficult to come back for some reason or another. Right now, for instance, Mr. Mfume was involved with the last amendment we had, which was to try to attenuate the death penalty by saying, maybe you can provide life imprisonment in lieu of death. Of course, it went down in flames.

But let me just say that I am very grateful to you for your help to this subcommittee. We will proceed to do everything we know how to be helpful to the administration. I have been very much encouraged by the youthful, aggressive and very enterprising way in which this Department is being handled. From the beginning, it has been a challenge. It has been very difficult. It never really has quite been settled. And it all depends on what kind of emphasis the Chief Executive wants to give.

After all, this is just one of the constellations that surrounds the President. The first HUD was created in 1965, when Lyndon Johnson was President. He named the first black to a Cabinet position, Dr. Robert Weaver, and I have known them all, and I can appreciate the job they do. Administrative jobs are a constant challenge and you are beset with problems, and then to compound it, the Congress is wallowing in the chaos of budgeting. The 1974 Budget Reform Act, whose companion was the 1974 Legislative Reform Act. Again, I was one of a handful that voted against both of those.

But, you know, the howl and cry was, how can you be against reform? Look at what is happening. That didn't happen then. How can an administrator of a multimillion dollar enterprise, now corporation, operate that way? How can it operate efficiently if it doesn't know other than on a month-to-month basis what it is going to have? Because we have now reached this impossible situation, all in the name of budgetary reform, of having continuing appropriation resolutions. Those were unheard of before 1974—and much less, supplemental or dire emergency supplementals such as you have now from month to month and, what is worse, from session to session. Even now since about, oh, gosh, 14 years ago from Congress to Congress.

You know, it takes everything I know how to keep from getting demoralized because I believe in the institution. But, I can see clearly, and I could see then, because there was language there that at that time nobody could visualize how it would be implemented in 1981, in the 1981 so-called Reagan Tax bill. That actually is at the bottom of this disarray, for it drained the Treasury of \$755 billion of revenue over a 5-year period.

You didn't have to be an expert to know that if you did that, you would have to either shift the burden to somebody else or have a new tax. Of course, it didn't happen, or you were going to get a monstrous deficit. So we had error compounded on error, all with the best of intentions.

The Legislative Reform Act actually for the first time made it possible since the first Congress, 1789, for a bold and ambitious Member, in the words of Madison, to politic internally for power. And that was clear in 1975. This subcommittee was one of the first.

What followed that year was well, until 1988, turmoil. It happened to the Armed Services Committee, and it still has not recovered. It has taken this last year in the defense authorization, and it took three rules.

And that means that I have about 3 minutes to go get the vote. Thank you very much. There is no use keeping you here completely through the lunch period. Thank you for your patience. The subcommittee stands adjourned subject to further call of the Chair.

[Whereupon, at 1:32 p.m., the hearing was adjourned, subject to the call of the Chair.]

H.R. 3838, HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1994

(RURAL HOUSING INITIATIVES AND THE ROLE OF
NONPROFITS, COMMUNITY BASED NONPROFITS, AND
COMMUNITY BASED DEVELOPMENT CORPORATIONS
IN HOUSING AND COMMUNITY DEVELOPMENT)

WEDNESDAY, APRIL 20, 1994

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING
AND COMMUNITY DEVELOPMENT,
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2128, Rayburn House Office Building, Hon. Henry B. Gonzalez [chairman of the subcommittee] presiding.

Present: Chairman Gonzalez, Representatives Mfume, Rush, Roybal-Allard, Furse, Velazquez, Watt, Roukema, Bereuter, Thomas of Wyoming, and Sanders.

Chairman GONZALEZ. The subcommittee will please come to order. And let me thank the witnesses for having responded to our invitation and being here. Our ranking minority member, Mrs. Roukema, is on the way.

However, the schedule was changed somewhat since last week, and the House is in session as of 10 o'clock. And I think we are going back on that Crime bill, and that means that we may be interrupted on either procedural votes or some amendments. But there is no reason we shouldn't proceed expeditiously.

And the first panel consists of Ms. Pamela K. Borton, the chairperson of the Council for Rural Housing and Development, based here in DC; Mr. Art Collings, a board member, National Rural Housing Coalition; Mr. Patrick Barbolla, rural housing council trustee of the National Association of Home Builders; and Ms. Ruth—

Ms. JAURE. Jaure.

Chairman GONZALEZ. Jaure. I have a tendency to pronounce things Spanish, and it would be a recognizable name in the Hispanic tradition.

Ms. JAURE. Yes, it is.

Chairman GONZALEZ. Executive director of the National American Indian Housing Council.

Thank you very much for being here this morning.

I have an opening statement, but I think that for our purposes this morning and in order to expedite I am going to ask that it be placed in the record at this point.

For it is a general statement setting forth the purposes of the hearing and the fact that it is very important inasmuch as it is an integral part of the proceedings that we have been engaged in, in anticipation of the Comprehensive Housing Act reflected in the extension of all of the Affordable Housing Programs, which, of course, include the rural, this year. We have to extend them. They will expire at the end of the fiscal year, so it is one of those musts. This is how we have structured H.R. 3838, which is the vehicle we are traveling on.

The administration will have a bill reflecting their Legislative Comprehensive Program, but it isn't ready, and it hasn't been. As soon as it is and if it is timed to do so properly, we will try to incorporate some of their best recommendations into H.R. 3838.

It is our hope that we can mark up and complete the subcommittee and committee business, I would hope, by the beginning of June, not later than the first week of June. Then proceed for House action and hopefully be in a position to get together with the Senate by the time we have the July break. There are a lot of things going on, and it complicates the processes, both on the House side and the Senate side.

So I think that it would be proper to start with some of the testimony. I wanted to thank you, for those that submitted your prepared written testimony. I received some last night, and I have had a chance to look them over. And some, of course, have been submitted in ample time for the members.

Some of the members will be able to be here this morning at one time or another. Some will not because they have some involvement in the so-called Crime bill, and they may have to be on the House floor.

But even that aside, we have some, I would say, 10 minutes, a little less, before we get to the point where we will have to leave and register our vote. Apparently, we have a procedural vote, and in a way that is good because it means that we will have some time before we get the next interruption.

So I wanted to thank you. The statements you have given us will be printed in the record as you gave them to us. My suggestion would be that if it were possible to summarize the main, salient features of your prepared testimony for the purposes of the hearing, we could proceed and then get to the second panel in an appropriate time and not delay them too much.

Some of the members were on their way here, and I am sure they have gone to answer the call first.

But I think if it is agreeable we will go on ahead and recognize Ms. Borton and hear you and then we will go take the vote.

[The prepared statement of Chairman Gonzalez can be found in the appendix.]

STATEMENT OF PAMELA K. BORTON, CHAIRPERSON, COUNCIL FOR RURAL HOUSING AND DEVELOPMENT, WASHINGTON, DC; ACCOMPANIED BY CHARLES L. EDSON, GENERAL COUNSEL

Ms. BORTON. Good morning, Mr. Chairman. I want to thank you very much for asking us to appear before you today.

My name is Pamela Borton. I am president of Southwind Management Services. It is a firm based out of Clearwater, Florida, with its major emphasis being on the management of Affordable Housing Programs, particularly those that are centered in rural areas.

I am here today as chairperson for the National Council for Rural Housing and Development, which is made up of over 300 members and 21 State organizations. These individuals are involved in the management and development and financing of rural rental housing, and we appear before Congress and other Federal agencies on the construction and management matters relating to housing.

There are very many good things in this legislation, H.R. 3838, for which we want to really thank you. Most importantly, of course, is the permanent authorization of the Farmers Home 515 Program. We have encouraged that it be continued on a permanent basis for years, and we think it is long overdue and very appropriate since the program has accomplished so much in providing very needed housing in rural areas.

The lack of the permanent extension has caused many problems in the past because the incentives to build and develop in rural areas, as you know, is tied very closely to the Tax Credit Program. And in many cases developers often find themselves in a position where, if Congress hasn't extended the authorization, they are not able to meet the tax credit requirements. So, again, we applaud this extension.

We are also extremely pleased with the \$794 million authorization level proposed in the bill, and we feel it is a much more realistic attempt to address the need for rural housing than the \$220 million figure proposed in the President's 1995 budget.

The set-aside of rental assistance for new construction, of course, is extremely important. The 515 Program, as you know, targets priority areas that are extremely rural where the housing need is very great. And, unfortunately, many of the very low-income eligible tenants are unable to occupy the housing unless there is rental assistance available. So we see this as a very good thing in the legislation as well.

And we also strongly support section 509, which prioritizes voucher assistance for section 515.

Having pointed out all of the positive aspects of the legislation, I would direct your attention to the one provision which we view as going to be a real problem and that is the administrative appeals as it is set out in section 505, which adds evictions to the adverse decisions which would be subject to the appeal procedure. Particularly the phrase, "on the record after opportunity for an agency hearing," will add, in our belief, a lot of unnecessary delays in the termination process, a lot of time delays as well as costly

delays and also impose a burden upon the administration in their role of fulfilling the appeals requirement.

We believe that every tenant in every complex should have the right of an evidentiary hearing to assure that the eviction is for just cause. Farmers Home regulations already require that termination of tenancies can only be brought when there is a material lease violation or good cause.

Additionally, the way the regulations are currently written, any time there is a termination of tenancy notice given, the agency must be provided a copy of that termination notice. If during their review of the notice it is determined that the tenant has not been afforded due process they, of course, can direct that that termination be terminated or cease.

As is currently set out, the tenant is afforded his evidentiary hearing through the State or local magistrate courts in the various State jurisdictions. We believe that the regulations that are currently in effect provide the tenant every opportunity to be given due process and to have the necessary evidentiary hearing.

Our concern is that if the purpose of this language in the legislation is simply to provide a second hearing, it is going to be very cumbersome and it is going to adversely impact the good tenants that we have in the complexes.

I would like to direct your attention to a couple of examples of how the good tenants are adversely affected by this. For example, if someone were convicted of dealing drugs within a complex, that is a material violation of lease and should be eligible for an immediate eviction or termination of tenancy. If we are forced to keep those tenants in the complex, that is going to send, I think, a bad signal to the good tenants, and they are going to be fearful of what that tenant's presence is going to have upon them while we continue through this second hearing process.

Another example I personally experienced. A local legal aid services' attorney felt that the second type of evidentiary hearing or an appeals process should be necessary. We had a household that had three minor fires in a unit, and legal aid wanted to argue that because they were minor fires, even though the fire department responded on all three occasions, that this wasn't really a material lease violation. We almost ended up in a situation of having a fourth fire with much more serious consequences which could have caused injury to other residents.

So there are any number of cases where good tenants can be adversely affected while this delaying process is going on for a second evidentiary hearing procedure.

And particularly in the nonpayment of rent issue, if you have good, rent-paying tenants who see that somebody is getting away scot-free because they don't have to pay their rent while this second hearing process is taking place, it is not much incentive for them to continue to want to pay their rent either, especially if they may even be more rent overburdened than the tenant who has chosen not to pay.

And then, finally, I would just like to point out that the "on the record after opportunity for an agency hearing" has been addressed. Interestingly enough, it has technical statutory meaning in the Administrative Procedures Act. Significantly, section

554(a)(1) excludes from a hearing on the record "a matter subject to a subsequent trial of the law and the facts de novo in a court." In other words, the APA, which is brought into play by your proposed amendment, would exclude situations such as the Farmers Home eviction where there is a trial de novo for the very sensible reason that an affected party should be permitted only one full hearing.

Chairman GONZALEZ. Ms. Borton, I hate to interrupt you, but I have got about 2 minutes, so I better go vote. We will be back.

Ms. BORTON. I do want to thank you for the opportunity to appear.

Chairman GONZALEZ. We will pick up where you left off.

[Recess.]

Chairman GONZALEZ. Ms. Borton.

Ms. BORTON. Thank you.

We were talking about the APA and the fact that it currently has language in it that would exclude from a hearing on the record a matter to which a subsequent trial of the law and the facts de novo in a court would be available to the tenant, and the fact that this would actually exclude situations such as the Farmers Home eviction where there is a trial de novo for the very sensible reason that the affected party or the tenant would be permitted one full hearing in front of a court of law.

Accordingly, we would have no difficulty with your proposed amendment if you added the following phrase after the words "agency hearing," and this would be: "pursuant to 5 U.S.C. 554(b)-(e) and the exceptions set forth in 5 U.S.C. 544(a)."

This change will make clear that an affected party is entitled to a hearing on the record when there is no court trial de novo or an evidentiary hearing available through a local State court, but the affected party would not be entitled to such a hearing in the event of a trial de novo.

We are particularly anxious to work with the subcommittee and staff, Mr. Chairman, to resolve this particular issue and would hope that a solution can be obtained so that the concerns of all can be reached, including the good tenants that we have out there in these rural rental communities.

Our general counsel, Chuck Edson, is accompanying me today to assist me in answering any of your questions, and I do want to thank you once again for your consideration of our views.

Thank you very much.

Chairman GONZALEZ. Thank you very much, Ms. Borton, for your testimony and your suggestions.

[The prepared statement of Ms. Borton can be found in the appendix.]

Chairman GONZALEZ. Mr. Collings.

STATEMENT OF ARTHUR M. COLLINGS, JR., EXECUTIVE COMMITTEE MEMBER, NATIONAL RURAL HOUSING COALITION, WASHINGTON, DC; ACCOMPANIED BY BOB REPOZA, EXECUTIVE SECRETARY; AND PAUL COHEN

Mr. COLLINGS. Mr. Chairman, members of the subcommittee, I am Art Collings. I am a member of the executive committee of the National Rural Housing Coalition.

With me are Bob Repoza, our executive secretary, and Paul Cohen of his staff. We represent the national nonprofit rural housing movement and the interests of the rural poor, and so our interests are somewhat different than some of the others here.

We always appreciate the opportunity to come and testify and thank both the subcommittee and the staff for many rural provisions in H.R. 3838 which we support.

I am just going to read pretty much from a summary.

We are going to highlight two budget issues of concern to us, amendments in the bill we strongly endorse, and two which the coalition opposes.

And we appreciate the bill's support of current program levels and current programs but are deeply troubled with the administration's budget proposal that changes the basis for interest credit subsidy in section 502. The data that we have looked at and developed cause us to believe it will cause most loan recipients to pay between 40 and 50 percent of income for total shelter costs and virtually eliminate a good deal of the very low-income recipients. It will be difficult to use the 40 percent that is set aside for those people with this proposal by the administration.

We are equally disturbed at the proposed 59 percent reduction in section 515 funding. We prefer your level but are really disturbed at the budget because section 515 is the one Farmers Home program that has the capacity to serve the poorest of the rural poor.

Both of these proposals really are in the interests of holding the budget line, but unlike the stated doctrines that everybody would share the pain, it seems as though the poorest of the poor are bearing all the pain in these reductions. It is the very low-income people that are going to be affected.

We support, or our coalition supports, H.R. 3838 in general. We like it. We have some specific things that we endorse including the authorization levels, with the exception of that for rental assistance. We think you are low on rental assistance, given the amount of renewals needed. There are some 27,600 for fiscal year 1995, some 31,000 renewals in fiscal year 1996, and so we think you need to look at that.

We, too, appreciate the permanent authorization for section 515. We are thankful for your making the Deferred Mortgage Payment Program permanent. We appreciate the strengthened prepayment restrictions.

We are, again, thankful for cost-based security for section 502 loans in remote rural areas and Indian reservations. We have been through this before, and we found that many of those areas are just excluded because cost is more than what you can get a normal appraisal to show.

We like the practical changes in the underserved areas legislation where the 1 year is fine for section 515 use but does not provide enough time in those areas to develop capacity for single-family housing.

We support the use of section 521 as operating subsidy in migrant farmworker housing projects. We have the support of the farmworker housing providers and Farmers Home staff for that particular piece of legislation.

We support the nonprofit delegated processing demonstration for section 502. It will be helpful in areas where we have slow processing now.

We support the Native American capacity demonstration, the re-financing initiatives, the rural community development initiative, and the appeal of eviction, although we would suggest that you eliminate that part that throws it on the agency. What we were looking for initially was to put it back within the agency's tenant grievance and appeal procedure, where the appeals are done between the tenant and the owner rather than by Farmers Home.

In our testimony we are suggesting changes to the HOME Program for rural areas, and we will be submitting later technical changes to several items in the bill, including that to the Deferred Mortgage Payment Program, where it would be designed to coincide with Farmers Home's development of a new accounting system.

The new accounting system, hopefully, will not be like the accounting systems in the past that took eons and eons. But they are looking, I believe, at some private sector software rather than developing their own. And it will finally implement escrowing of taxes and insurance. Some of us have been around for a while and remember we had that in the 1974 act, I believe. While the language kept getting stronger FmHA has never escrowed. And so we would like to make sure that the Deferred Mortgage Program works well with the new accounting system.

We will be suggesting other changed language. We are submitting suggested language that will clarify tribal eligibility for certain Title V programs.

Our coalition does oppose the sequential transfers authorized in section 506(b) in H.R. 3838 and the rental assistance formula in section 507(b) that my colleague, Pam Borton, endorses.

The former, the sequential transfers, we believe appear to provide for additional tax incentives in section 515 through a transfer at a time when the program is under continuing attack for costs and negative publicity about the richness of the program to those involved. We don't think it is a good time for this. We think it will only reinforce negative stereotypes about a program that is really a good program and which we support. We don't believe that this particular amendment is in the public interest.

The rental assistance formula will guarantee rental assistance for new construction and without regard to budget ceilings and renewal needs, and while we think it is well intended, it can be harmful to tenants.

I actually was involved with another gentleman who is not here today in writing the first language for what became section 521 rental assistance in the 1974 act. My part of it was pretty gross, but we intended this to be used for new construction at the time. But over the years there has built up a need for renewals, and these renewals are pyramiding, and it is difficult. Even though we would like to see 100 percent rental assistance in newly constructed projects, we can't support that where it might be potentially harmful to existing tenants. It helps new tenants but potentially strips existing tenants of renewal of their contracts. For that reason we oppose that particular amendment.

I think the last thing is the refinancing amendments. We have been dealing with Farmers Home, who I believe has objections to the refinancing amendments. They think that in section 502 that it possibly—if you were to use new terms in refinancing—would have to use new money or it would be in violation of the Budget Reform Act. We have asked them for a copy of the legal opinion on that. I think the opinion is oral.

Which brings up a point. In many cases where we get involved where there is a negative legal opinion from the Office of General Counsel, we are usually denied seeing that opinion. The Office of General Counsel is part of the same USDA as FmHA and they usually cite the attorney/client privilege. We don't think there is an attorney/client privilege deal here. What you have are two agencies in the same Department, where one is issuing a legal opinion which impacts on the results. And we think that those opinions should be available for public disclosure.

And that concludes my remarks, and thank you very much.

[The prepared statement of Mr. Collings can be found in the appendix.]

Chairman GONZALEZ. Well, thank you, Mr. Collings.
Mr. Barbolla.

STATEMENT OF PATRICK BARBOLLA, RURAL HOUSING COUNCIL TRUSTEE, NATIONAL ASSOCIATION OF HOME BUILDERS, WASHINGTON, DC

Mr. BARBOLLA. Thank you. Good morning, Chairman Gonzalez, ranking minority Member Roukema, and esteemed members of the subcommittee.

My name is Patrick Barbolla, and I am a developer of rural housing from Fort Worth, Texas. It is my pleasure to appear on behalf of the National Association of Home Builders' 170,000 members and the members of its Rural Housing Council.

Mr. Chairman, it is a true privilege to acknowledge one whose career personifies better housing for all. I thank you, Mr. Chairman, for your strong and capable guardianship of the Farmers Home housing programs throughout the years. Our membership can rest easy knowing that you are at the helm.

First, we thank you for permanently extending the Section 515 Program. At a time when section 515 funding is under assault, permanent authorization becomes even more important as it takes on a symbolic significance. I am aware of and appreciate your continued support for appropriate funding and a fair and reasonable home buyer contribution level.

As you are well aware, rural areas suffer from a severe shortage of decent and affordable housing. To provide housing opportunities for rural lower income families, new construction must be coupled with the means to make the housing affordable.

We applaud the subcommittee's understanding of the distinct housing characteristics of rural America and support the rental assistance set-aside for new construction.

Overall, we are supportive of the act. There is, however, one dominant issue which should be reconsidered. We oppose requiring administrative appeals prior to the initiation of an eviction process for section 515 tenants.

Our opposition is not founded in any disregard for tenants' rights. Indeed, it is appropriate for all residents to: One, have prior written notice that certain conduct is cause for lease termination; two, be evicted only for material lease violations or other good cause; three, have the ability to review with their counsel any documents relevant to the eviction; and, four, have an impartial hearing before someone with the ability to prevent the eviction.

But all of these rights are available under current Farmers Home Administration procedure. Administrative appeals will be highly detrimental to the other housing participants, without providing any meaningful tenant benefit.

First, there is no empirical data that tenants' rights are not adequately and fairly protected in judicial procedures conducted under State law. Second, the impending downsizing of Farmers Home will seriously impede it from conducting hearings on each eviction. Third, every eviction delay prevents an otherwise qualified family from obtaining adequate housing. Fourth, any delay in evictions for nonpayment of rent harms the owner and causes increased rents for the other residents. And, most importantly, there should be no delay when criminal activity or drug use is the reason for eviction.

In rural America, there is drug use. There are gangs and there are criminal activities and assaults. Apartment owners owe the residents the duty of reasonable protection. To fulfill our duty, we must not be precluded from lawfully, but quickly, expelling those threatening physical or financial harm to the complex or its residents.

Two days ago, the insurance agency handling a majority of Texas' 515 projects stated that if the appeals procedure slowed the eviction of dangerous tenants then our projects would quickly become uninsurable. Without liability insurance, owners by the thousands will abandon their projects.

Now to discuss other program improvements. We also believe that future housing policy should be based upon the fundamental concept that project development should be strictly and solely based upon which developer can produce the best housing for the lowest possible cost. Sponsor characteristics are truly irrelevant to housing development. The country may not be able to afford non-competitive, high-cost sponsors.

We question the continued need to set aside funding based upon sponsor characteristics. We recommend that this topic be seriously studied for future legislation.

Program improvement can also be made in housing preservation. At present, preservation is occurring by means of legislative fiat. The current long and difficult path to incentives or prepayment was not foreseeable by owners upon initial project development.

At the same time, these developers also suffered from the retroactive and painful changes of the Tax Reform Act of 1986. With this background, developers may begin to doubt whether their reasonable expectations in dealing with the government will be fulfilled. When one doubts if one's contracts will be honored, then that party will increase the contract's cost to compensate it for future possible defaults.

In the preservation area, we are concerned that current statutes hamper tomorrow's efforts to provide housing opportunities for

lower income households. We recommend that serious consideration be given to revamping the preservation system to provide greater flexibility in incentives in order to restore confidence in the government. Phrased another way, while past policy has been based upon the stick approach, it may be time to offer a little more carrot.

While there are other issues to mention, I shall not continue, in order to preserve a few moments to comment about a very impressive person on your staff that we have had the privilege of working with. She is knowledgeable, able, and truly committed to the goals served by this subcommittee. Her name is Nancy Libson, and, Mr. Chairman, I thought you would like to know that she is very much appreciated by Texans and Washingtonians alike.

In conclusion, I commend you for the results you have achieved and request that my written remarks be placed in the record. I would be pleased to respond to any questions which you may have and would like to offer myself and the entire NAHB staff as a resource in the future. Thank you.

[The prepared statement of Mr. Barbolla can be found in the appendix.]

Chairman GONZALEZ. Thank you very much, Mr. Barbolla. Thank you for your very generous remarks and those referring to Ms. Libson. She is actually the director of the staff, and she came aboard running from the very beginning. We were very fortunate to get her.

Ms. Jaure.

STATEMENT OF RUTH A. JAURE, EXECUTIVE DIRECTOR, NATIONAL AMERICAN INDIAN HOUSING COUNCIL, WASHINGTON, DC

Ms. JAURE. Thank you, Mr. Chairman.

Mr. Chairman and members of this subcommittee, my name is Ruth Jaure and I am executive director of the National American Indian Housing Council. I want to thank you for the opportunity to testify before you today on the Housing and Community Development Act of 1994, H.R. 3838. This act is of critical importance to Indian housing authorities and we are pleased that you have considered us today.

NAIHC is a nonprofit association of 187 Indian housing authorities that serve over 450 American Indian tribes and Alaskan Native villages. IHAs are formed under tribal or State law to provide housing assistance with funds from HUD to Native Americans. And, since 1961, we have built approximately 80,000 units.

Last week, NAIHC celebrated its 20th anniversary and at that convention we elected Jackie Johnson as our chairperson. Ms. Johnson is familiar with this subcommittee and will represent NAIHC well in these challenging times.

I appreciate that the subcommittee recognizes the need for Indian housing in Indian country. It has authorized us \$276 million, which is an increase from the current appropriation. And also for 1996 you have given us a 3-percent increase. We greatly appreciate that.

However, the need in Indian country remains acute. As you know, statistics from the Bureau of Indian Affairs indicate that ap-

proximately 90,000 Native American units are needed to house our people. When we allocate approximately 2,000 to 3,000 a year, it is a long time before we are going to meet that need. NAIHC requests that the appropriations or authorization be increased to 3,200 for 1995 and 3,400 for 1996.

I also want to comment in my testimony, I was concerned about HUD's budget cuts for the modernization and operating subsidy. Last night or yesterday evening I had the opportunity to talk with another public housing interest group, and they have learned that HUD is going to put some more money back into those programs, but I would ask that you hold their feet to the fire and assure that the integrity of those programs are not jeopardized by cutting them too severely.

I want to now go back to the bill and just briefly comment on some of the portions or the sections that IHAs have concern over.

We are concerned on rent reform, the disallowance provision. It is a good provision and one we support, but we don't believe it goes far enough. In my testimony, I talk to the 30 percent rule and the burden that it creates for Indians who are attempting to get out of poverty. NAIHC supports a reduction to 20 percent. This will really relieve a lot of Native Americans who have to pay 30 percent of their income. So we support a reduction of the 30 percent rule.

We also support the disallowance provision on ceiling rents. We support ceiling rents in Indian country and—however, we are asking that we be allowed, that language be inserted into the testimony to allow IHAs to set their own ceiling rents.

We have unique conditions in Indian country. Most of our economies are depressed, and we need to be able to set our ceiling rents based on the local conditions of the tribe or the reservation. So we are asking for language for that.

The bill contains a provision that will include Indian housing authorities in all the public housing bills, except when excluded, and we support this provision. However, we ask for your assistance in making sure that the programs that do pass through Congress are applicable in Indian country. We ask that you help us monitor that.

I also want to comment on the COMPAC. We support—NAIHC supports the COMPAC provision. However, we are concerned that we may have to compete—that we will compete based on crime statistics.

Crime statistics in Indian country either don't exist or they come extremely hard to find. They are hard to find.

We have conflicting jurisdictions in Indian country. We have tribal police. We have BIA, and we have the FBI. All of them gather statistics in various ways. Or in some cases, in Alaska and remote villages of Alaska, no statistics are gathered at all. We believe we will not be able to fairly compete for COMPAC funds if they are based on crime statistics.

However, the provisions within COMPAC are extremely important to us, and we would really want to access them, particularly now that it addresses all substance abuse, which is a problem on Indian reservations.

We also support the Native American Rural Housing Capacity Demonstration project. This program is desperately needed in In-

dian country, and we believe it will help open up Farmers Home to us, which has not been happening in the past.

However, we ask that the technical assistance provider language be more flexible and allow for groups who do not necessarily have revolving loan experience but have the ability to implement a revolving loan program, that the language be flexible enough to allow that.

We also ask that language be inserted that requires the technical provision providers to have tribal or Indian housing experience. We believe this is going to really help the providers be aware of the cultures within Indian country.

I also want to address a provision in the bill for which NAIHC is extremely grateful that the bill contains, and that is an increase for our technical assistance which we provide to Indian housing authorities. This program is extremely successful in Indian country. I have many letters to verify that from Indian housing authorities that have received our technical assistance. It is successful because it is one-on-one assistance. Also the training programs are very successful.

I am asking, though, that we be able to use some of this increased appropriation for research within NAIHC. There is no other entity that does research in Indian housing, and NAIHC is an appropriate agency to do that.

That is the conclusion of my testimony, and I thank you very much.

[The prepared statement of Ms. Jaure can be found in the appendix.]

Chairman GONZALEZ. Well, thank you, Ms. Jaure.

And thank each and everyone, as I did before, but particularly for your recommendations and your very careful scrutiny of H.R. 3838.

We have in the interim, though, for your information, gone ahead and acted positively. In fact, the President has signed these measures into law. But we withheld on some that the administration wanted as a companion action.

For instance, the myth of determining formula or what have you for the grant and all, we withheld that so that we would have a more leisurely and better opportunity to evaluate rather than acting on the administration's request, which I believe would have kind of been contrary pretty much to what you were observing and recommending, Ms. Jaure.

So there are some things that we have not acted on, but there are other things that we have, in obedience to the administration's need to get better control on some of its administrative problems such as the disposition of multifamily housing, disposition, and other related problems that had grown. So we have given that in the meanwhile.

But H.R. 3838 definitely is not the vehicle for an up-to-date, responsive, comprehensive Housing and Community Development Act, which we are also trying to get at. But it is targeted a little bit more narrowly so that we can extend these programs.

As you observed, H.R. 3838 would permanentize section 515 to bring about a more realistic legislative program on a sustained, stable basis, for these programs that are working.

Let me talk generally, because I am going to try to stick to my time and we have several members that have come in and we have another panel that follows yours. Overall, it seemed to me ironic as I observed the commemoration of the 200th anniversary of our system of government and the Constitution in 1987, that at this time our generation—that is, this generation—would be confronted with the need of reaffirming those basic principles.

Because they have all been, under one form or another. And the very basic philosophy that government should not intervene, of course, was decided many, many decades ago. The issue really is not whether government should intervene or not but in whose behalf.

Those very interests that talk about getting the government out are the ones that are the biggest beneficiaries, either through nonaction or some action on the part of the government.

So it seems ironic that we should be favoring these burgeoning tremendous needs, particularly in this critical area of shelter, which as you know is indispensable in human existence, no matter where on this planet. It is one of the three indispensables, and our country has an acute crisis.

I appreciate the observation and the statistics, Mr. Barbolla, that you gave in your statement, as to that acute problem in the rural area. It is generally overlooked. We have tried to emphasize it ever since I came on this subcommittee from the beginning but particularly since becoming chairman of the subcommittee.

More specifically, I will address the questions that both you, Ms. Borton and Mr. Collings, raised on the lenience procedures. Now, we had some provisos that we thought would reflect closer what you are recommending in both the 1990 and 1992 acts, but it was one of the things we couldn't compromise on, and it was knocked out.

The reason for whatever is in there now is that there has been some misgivings as to the State judicial procedures being intimidating to the poor and the low income. However, I think that your observations are far more down to earth and practical and really stemming from the cutting edge, so to speak. So you can rest assured that is going to be something very present, as we proceed with H.R. 3838.

The other main point is the one that we should be thanked for giving even what I consider subminimal authorization levels; 700 plus 515 is not adequate, but compared to the administration's drastic cut, which I can't understand or forgive, other than to say that I am sure they have their problems with the constrictions of agreements that were reached even before the advent of this administration but certainly since its advent and then the ever-present, sometimes sinister, OMB.

But, still, there is no excuse for an administration that wishes to speak of addressing in a realistic fashion the real needs emanating from the midst of our folks and particularly the rural areas. I know of the need and have known and been charged with knowledge, even before I became chairman of the subcommittee, but specifically since then.

We have gone out to the rural areas from one end of the country to the other and in between, and we are well aware. It just can't

be related in words how much I appreciate your testimony and how valuable it is to us as we proceed.

I don't know of anybody that doesn't want economy and isn't for frugality and is against waste any more than anybody that I know that isn't against crime. But the big question is the idea of justice and what it is that we are about and whether we are here to respond and try in some way to be responsive to the needs that are clearly presented to us, such as the testimony you rendered and the testimony of others.

So, with that as a general background, we will be in contact with you, and I will have some specific questions that perhaps would better be submitted in writing anyway because they ask for some statistical facts that you would have a little bit more time to gather for us. I will submit those in writing in proper time for you to look at them and respond.

[The questions referred to can be found in the appendix.]

And, with that, Mrs. Roukema.

Mrs. ROUKEMA. Thank you, Mr. Chairman.

Mr. Chairman, I do want to first thank my colleagues, both Mr. Bereuter as well as Mr. Knollenberg, for covering for me last week while I was being grandmother to a brand new baby, a grandson.

Chairman GONZALEZ. We congratulated you in absentia.

Mrs. ROUKEMA. Thank you.

Chairman GONZALEZ. We will do so again.

Mrs. ROUKEMA. I appreciate that.

But I did want to express my public appreciation to Mr. Bereuter and Mr. Knollenberg for their work. And then defer to Mr. Bereuter on this particular subject with this panel, since Mr. Bereuter is much more closely experienced on rural matters and Indian housing matters than I. So I will defer to Mr. Bereuter. Thank you.

Mr. BEREUTER. Thank you very much, Mrs. Roukema. And I appreciate all the leadership you have given in all areas of housing.

Chairman Gonzalez, thank you very much for holding these hearings. They are very important, and I appreciate the input that we are getting here today. I have heard and tried to read all of the testimony.

Ms. Jaure is with the American Indian Housing Council, as you know, and I think they do tremendous technical assistance work, and I appreciate the fact that there is an item in the proposed budget that will be very helpful to them to continue their efforts.

And I listened to your recommendations in particular, but I would like to take a few minutes and focus on the 515 Multifamily Program. As you heard here already, this program is being proposed for a significant reduction in the Clinton budget. The authorization level for 1994 was \$771 million; appropriations, \$540 million. Fiscal year 1995 budget, \$220 million. You get the general direction of the trend there, not very positive.

I think it is most important that we provide those rental units, and I want to work through this logically with you and then ask your opinion. I don't really care how those rental units are built, as long as they are providing rental housing at an affordable rate to low- and low-middle income people that want to live in them. Perhaps you share in that. I hope you do. It is not important how they get there.

So I am wondering how you feel about a supplemental program for the existing 515 Direct Loan Program. And underline supplemental. I don't want anyone to feel that what I am suggesting jeopardizes the existing program. But I would a lot rather put more housing out there available for low- and low-middle income people by using a guarantee program, if I could leverage a tremendous amount of additional money and, therefore, construction.

We have had this experience already in the Single-family Program, the 502 Program, for middle-income Americans. I see no reason why we can't supplement it with a guarantee program for this Multifamily Construction Program.

The subsidy goes indirectly to the developer under the existing 515, under conditions that are specified. Why isn't it appropriate to investigate using a Loan Guarantee Program for 515 construction as long as it carries with it the stipulation that they are serving 100 percent or whatever X percent we determine of low- and low-middle income people and that they have to continue to do so for some long period of time?

Are you interested in pursuing a supplemental guarantee program, loan guarantee program, mortgage guarantee program?

Ms. BORTON. Our organization, CRHD, has looked at that on a preliminary basis. And the main concern that we kept coming up with as the board of directors as well as the membership is the fact that you were going to end up with higher rents than what we have got now.

And, of course, there is still going to be a need for rental assistance of some sort since, as you said, you want to try and do it on an affordable rent basis for the individuals whom we are serving.

Mr. BEREUTER. You jumped to the conclusion that the rents are going to be higher. The rents can be as high as we limit them to. Don't forget, we make law here.

Ms. BORTON. OK. It is just that we, obviously, did use certain assumptions going in on a preliminary basis. And the conclusions that we were coming up with indicated higher rents.

Mr. BEREUTER. If we want to cap the rents at a given rate and it is a condition for participation in the program for a given year, tied to whatever kind of index you want or percentage basis or whatever, and we make the subsidy to the developer sufficiently attractive in the Home Loan Guarantee Program—I didn't say unsubsidized guarantee program, I said Home Loan Guarantee Program. It could be subsidized or unsubsidized. And we specify that the rent for the renter may be no more than X. We will determine the formula. The rents don't have to go up.

Ms. BORTON. Obviously, we remain very interested or we wouldn't have undertaken the assignment to look at it to start with. We see that as a need that is growing out there, that is going to have to be addressed. Certainly, this is an alternative.

Mr. BEREUTER. You can tell me your concerns in general about a supplemental program which is going to magnify the number of rental housing units. I think we can answer all those concerns by the direction we give on a pilot program. I don't think we ought to rush into something like this massively, but I think a demonstration program, just as the 502 Program had a demonstration element, might help us work out any bugs that might be there. But

you tell me your concerns, now and later, and I think they are achievable.

This all looks so logical to me. I must be missing some major problem because it doesn't look that complicated, frankly. I welcome other comments to hear. I won't pursue it further. Yes.

Mr. COLLINGS. We have looked at it also, Congressman. I think, as a matter of fact, it was proposed by our executive secretary that we ask for a demonstration.

Our members, though, of our coalition just want to see what the numbers will look like for subsidy. Because it may be that we will be using more budget authority to get the same place if the private interest rates are considerably higher than the cost of Treasury borrowing. So I think that is our hesitation right there. We see the trend for 515 going down, down, down. At one time, it was \$900 some odd million. Now they are proposing \$220 million.

So we are interested, but only to the point that we don't negatively impact the budget authority levels which are a problem under the cap.

Mr. BEREUTER. Well, somehow, to show good faith, I think we ought to boost it above what the Clinton budget proposed and start a demonstration program so that it is not seen as an either/or situation.

But you don't, frankly, care how the housing unit is built as long as it is affordable, as long as it continues to be affordable? You don't care about the method of getting that unit there? You want just more of them, because we have an inadequate supply of rural low-income housing rental units out there.

Mr. COLLINGS. Right. Well, I think we would want built-in protections—for the tenants—because the protections under the law for section 502 homeowners, like moratorium and the right to appeal, are denied under the Guarantee Program, administratively. And so—

Mr. BEREUTER. It doesn't have to be that way though, does it?

Mr. COLLINGS. No, it doesn't. And I think that the plan we were looking at would build those rights in to make sure that they are kept.

But we are still interested and we don't care whether units are built with private bank funds and so forth as long as we can get, and you get, the numbers increased. Once again going back to budget authority, so the subsidy involved doesn't cost more than what we would get under the direct program.

Ms. BORTON. We would be very happy to work with you and your staff and share some of the studies that we have already done and see if there is something that we can do in using that as a supplemental or pilot program. And certainly, I applaud your comment that it could be done as a demonstration along with an increase above the \$220 million.

I don't think \$220 million is where we need to be, obviously. But I think that doing something on a supplemental basis—as a demonstration—would be very welcome. We would be happy to sit down with staff and talk to you.

Mr. BEREUTER. Thank you. I want to appreciate—express my appreciation for that offer. We will take you up on it.

Do the other two persons have anything to say?

Mr. BARBOLLA. Yes, Representative, on behalf of the National Association of Home Builders, we understand that the Loan Guarantee Program is a program that should be investigated.

We also are concerned that, as we learned on the Single-family Guarantee Program, coordination with the secondary market is extremely important to make a program that can work. So what we would like to do is recommend that the subcommittee undertake an investigation and study of the concept in the coordination with the secondary market and then develop a pilot program.

Probably, the worst thing we could do is maybe to be too hasty to run into a pilot program that would fail, that would set the program back or the concept back several years. So maybe a study first, you know, within 6 months to a year, then developing a pilot program in four or five States would be the appropriate way to go. And, again, we would offer to work with you on this.

Mr. BEREUTER. You may be right. I think you are too cautious.

Mr. BARBOLLA. We have been accused of that before.

Mr. BEREUTER. And I say that because of the comments we received from the Fannie Mae and so on, that are sort of pushing us to be more innovative.

Ms. JAURE. Congressman, I do have a comment on that. As you know I am a strong supporter of the Indian Guarantee Program, and there is a draft proposed reg. So we are very excited about it, and we can build rental units with that program.

We don't access, at this point, Farmers Home 515, but we are excited about the Loan Guarantee Program.

Mr. BEREUTER. Thank you. As you know, this was an effort crafted here in this room with a lot of support bipartisanly. And I might say that I believe Secretary Cisneros is trying very diligently to work out the problems in OMB, which is the usual source of problems.

Ms. JAURE. Yes, but we are optimistic it will be implemented this fiscal year.

Mr. BEREUTER. I am convinced that is the most difficult environment to make a loan guarantee program work. If we can make it work in Indian country, we can easily make it work in the 515 Program.

Ms. JAURE. Yes. I agree.

Mr. BEREUTER. Thank you, Mr. Chairman.

Chairman GONZALEZ. Mr. MFume.

Mr. MFUME. Thank you, Mr. Chairman. I don't have a question. I do have an opening statement for the record that I would ask unanimous consent to be—

Chairman GONZALEZ. Certainly, without objection.

Mr. MFUME. To be entered.

I want to thank you again for your leadership in holding these hearings, for moving the Reauthorization bill through. As you know, I support H.R. 3838. For those of us who don't represent rural areas, it is always interesting and informational to hear about rural housing initiatives and the problems that are encountered there. And so I thank this panel again for the service that they provide in that regard.

My thanks also to Mr. Bereuter who has, along with the chairman, led this subcommittee on this very important issue of rural housing and the initiatives that we seek to undertake.

Mr. Chairman, I had expected and looked forward with great interest also to the second panel, nonprofits, of Bart Harvey and others. I don't think I am going to be able, because of schedule conflicts, to take part in that, but my written remarks will go to the heart of what I would like to say in that regard.

Again, let me thank the panel, and I yield back any time.

[The prepared statement of Mr. Mfume can be found in the appendix.]

Chairman GONZALEZ. Thank you.

Mr. Thomas.

Mr. THOMAS. Thank you, Mr. Chairman.

I just, of course, am very interested in rural housing in coming from a place like Wyoming, and we participated in the Indian Program.

I guess I have sort of a generic question. We talk about different programs and more programs, and it seems to me it is a little complex right now.

Let me share with you something that I am fairly proud of. In Cheyenne, they put together some affordable housing units. And one of the interesting and to me positive things was after 15 years they become private ownership, after a period of time.

But there is a bridge loan from Key Bank. There is a development loan from Wyoming Housing Authority. There is permanent financing and tax credit from the Wyoming Community Development Authority to Fannie Mae. There is a limited partnership with the private organization. And Fannie Mae is a general partner. Fannie Mae then becomes a limited partner.

So you have Key Bank, Fannie Mae, housing authority, community development authority, mortgage loan, FHA. Isn't it a little complex? The housing thing looks to me a little bit like President Clinton's Health Program. Shouldn't there be some way to make this a little simpler and define our goal?

I see money tilting toward inner cities, quite frankly, and that concerns me some. But what is your experience with the setup? Isn't it a little convoluted?

Ms. BORTON. It becomes very complex. We are dealing with some rural housing that must comply with State, local, and municipal, and county affordable housing ordinances and two different Federal programs. We do four Affordable Housing Program reports every month to the various and sundry agencies so that all of the groups that you were just talking about are satisfied.

And, you know, you sometimes wonder if we are really serving the affordable clientele, which is the residents, or if we are just creating some bureaucracy, and overhead requirements to serve all of the other groups that have a vested interest.

But I agree. It is complex, and I am sure others at this table will attest to that.

Mr. THOMAS. This year's funding program has 20 different programs for rural housing, different aspects of it for funding. Do we ever sort of say why don't we start over and take the goal and see if there isn't a simpler solution? Some of these gentlemen and la-

dies have worked on it much longer than I, but I have to tell you that is an impression that I get strongly.

No one else wants to comment?

Mr. COLLINGS. I wanted to comment.

I think the section 515 we have been addressing here today in its purest sense can be used by itself. You don't need the bridge. In some cases you can get a construction loan locally, but in other cases you don't need to. So that I think the 20 items within the Farmers Home budget are probably serving different types of needs, self-help housing and so forth, that are all different.

But if you want a program that doesn't involve, doesn't have to involve, five or six different lenders and the cost involved in all of that, section 515 can be done alone, and you can get essentially 100 percent of your funding.

Mr. THOMAS. Would you guess there is a little territorial protection going on as well, a little bureaucracy?

Mr. COLLINGS. In section 515?

Mr. THOMAS. No, in the whole program, all these programs we are talking about.

Mr. COLLINGS. All of us pull red wagons, I suppose.

Mr. THOMAS. This is a caravan.

Well, Mr. Chairman, That is the only observation I wanted to make.

Mr. BARBOLLA. I want to respond quickly.

Of the 20 programs, probably 10 of them are programs directed to sponsor characteristics. And one aspect of my oral testimony is we think housing should be built by those best able to provide the best housing at the lowest cost regardless of sponsor characteristics.

The only part I disagree with Mr. Collings on is that 515 is not really a stand-alone program. Even in today's market rate, 515 housing cannot be built unless we couple it with the low-income housing tax credit. That was proved a couple of years ago when we had a low-income housing set-aside for nonprofit entities, and I think that year they only spent 30 percent of their money because they were not able to use it with low-income housing tax credits. So that is the only point we would disagree with him on.

Thank you for the question. I think it is a very good observation from our standpoint.

Mr. THOMAS. Thank you, Mr. Chairman.

Chairman GONZALEZ. Mr. Sanders.

Mr. SANDERS. Thank you, Mr. Chairman.

As you know, Vermont is one of the most rural States in the country. I am sure Wyoming is up there as well. So we thank you for holding this important hearing.

And the point is that while we all know the horrible problems facing the homeless and the housing crisis in the inner cities, we also know that in rural America equal problems exist except they are not quite so visible. So I am glad you are focusing attention on them.

I should tell you that in many rural communities, including my own State, we are making some good progress in terms of some innovative affordable housing approaches, in terms of, among other things, the community land trust which some of you may be famil-

iar with. And these land trusts tie public assistance to the land upon which homes are being built, and beneficiaries buy the home structure, but neither pay the high cost of the land's value nor realize the increase in its value when they sell their home, which is one means by which we keep the housing perpetually affordable.

One of the problems that we have had, and maybe you can comment on briefly, is that local administrators in rural areas often end up with not enough money to be effective administrators. And, obviously, while on one hand we want to make sure that, quote, unquote, bureaucrats do not end up absorbing all the money, on the other hand, we want to make sure that those people who are asked to administer programs have the resources to do it effectively. Because you can put all your money you want into a program, but if you can't administer it, that money becomes not well spent. So I would like your comment on that.

Also, Mr. Chairman, one of the areas of the development I believe demands the subcommittee's attention is the issue of mobile homes. As the cost of rural housing has increased and job opportunities have decreased, many have been forced into mobile homes. In fact, in my own State of Vermont, over 10 percent of Vermont residents live in mobile homes.

Unfortunately, demand for affordable housing has made trailer parks an area ripe for private sector speculation. Because they are dealing with renters and tenants with little or no bargaining power, owners have raised costs of land use while letting the premises fall in disrepair.

In my State of Vermont, we often have problems with water supply, sewage, roads, and other infrastructure which become substandard and even dangerous. The Safe Drinking Water Act currently before this Congress threatens to close down many of the parks, leaving thousands homeless. Renters and tenants want to take over their trailer parks and improve their living conditions.

In the State of Vermont, a number of the tenants have come together to develop cooperatives to take over and administer and own their own trailer parks. It seems to me, and I would like your view on that, as to whether Federal assistance in this area would substantially improve the living conditions and also even empower many of the rural poor.

So let me say I am interested in your thoughts on housing situations that ensure benefits that are realized perpetually. In other words, concepts like the land trusts that don't just help poor people but make sure they remain perpetually affordable.

Number two, limiting the amount of Federal administrative costs States' bureaucracies can use. In other words, are the administrators getting the resources they need to administer the programs?

Three, funding tenant-based ownership of trailer parks.

Those would be some of the thoughts I would like your comments on.

Thank you, Mr. Chairman.

Chairman GONZALEZ. Thank you, Mr. Sanders.

Mr. BARBOLLA. If you would like, I will try and take a shot at one of the issues.

From my limited experience, one area that I am familiar with is using the low-income housing tax credit that has to be adminis-

tered through a State housing finance agency. We are finding in many States extremely high filing fees, yearly monitoring fees, and other fees that are going to developing, frankly, a complete State bureaucracy that we have to live through and work with. That is one area.

I don't know what Congress can do to prevent the States, except maybe mandating and limiting the fees that may be set with the various programs.

On behalf of the homebuilders, the other issues we are talking about, which is what I call mandates that have been imposed upon States, by the Federal Government, where the States do not have funds, we really do not have policy on that.

I know the National Conference of Mayors, I think, is extremely concerned about it. And you are correct. In many of these, the acts that are being imposed upon local communities will devastate them financially. But we, frankly, have not developed any solutions to the problems because we know that the goals that are being served by the acts that are being passed are very good.

The question is, where does the funding come from? And we just do not have a policy on that.

Mr. SANDERS. Anybody else?

Mr. COLLINGS. Yes. I have one comment about land trusts, and that is—I have a mind like a sieve, so I forget the year, but I think you placed into law the amendment making land trusts eligible under section 502.

Mr. SANDERS. Yes.

Mr. COLLINGS. I would recommend, Congressman, that you lean on Farmers Home a little bit to get the regs out.

Mr. SANDERS. We are, as a matter of fact.

Mr. COLLINGS. Because I have negotiated on behalf of land trusts a couple times to get demonstrations and get them approved by Farmers Home, but it is a very slow process, and it would be much better if they were to get the regulations in place.

Mr. SANDERS. I agree.

OK. Thank you very much, Mr. Chairman.

Chairman GONZALEZ. Thank you, Mr. Sanders.

I have been advised that procedurally there will be what you call a 15-minute vote, and there will be a 15-minute vote back to back. So I have no idea how many of the members we will be able to bring back. So we have asked unanimous consent that they all have the privilege of submitting questions in writing. In the meanwhile, there is no use keeping you here.

We want to thank you, and we will recess briefly to take this vote and then go into the second panel. You are welcome to stay, but as far as holding you here, there is no need to prolong that agony. Thank you very much.

[Recess.]

Chairman GONZALEZ. The subcommittee will please come to order. We will proceed to recognize the second panel. Mr. Paul Grogan, the president of the Local Initiatives Support Corp., based here in DC; Ms. Karen Phillips, the executive director of the Abyssinian Development Corp., of New York; Mr. F. Barton Harvey, III, chairman, The Enterprise Foundation based here in DC; and Ms.

India Pierce, director of the Mount Pleasant NOW from Cleveland, Ohio.

We don't have an Ohio member, or we don't have any right now. They are involved in these votes and the intricacy of the procedural methods in this Crime bill that is pending before the House, and has been and will probably continue to be the rest of this week and into next week.

So we have that to contend with this morning. Some of the members will be coming in. I ran into some. I think some decided to stay there because they expect to have an amendment and probably a vote after 15 or 20 minutes.

But I think we ought to proceed and those members that can make it in time will be given an opportunity to ask questions. But I don't think we ought to hold you here unnecessarily. You have been here through the morning. If there is no objection, we will recognize you in the order that I introduced you.

Mr. Grogan.

STATEMENT OF PAUL S. GROGAN, PRESIDENT, LOCAL INITIATIVES SUPPORT CORP., WASHINGTON, DC

Mr. GROGAN. Good morning, Mr. Chairman. My name is Paul Grogan. I am the president of the Local Initiatives Support Corp., and I am very pleased to be here to testify today about H.R. 3838, the Housing and Community Development Act of 1994. And more generally, to make some comments about the role of nonprofit community development corporations in housing and community development activities and programs.

A word about our institution; LISC was created by the Ford Foundation in 1979 for the purpose of providing technical, organizational, and financial help to grassroots revitalization efforts on a national scale. And since that time, we have been involved in raising about \$1.2 billion in grants and low-interest loans and equity investments for community development corporations or CDCs, as we call them.

We have helped these CDCs build or rehabilitate more than 50,000 units of housing and create over 8 million square feet of commercial and industrial space in some of the most ravaged and depressed inner-city communities in America.

And very importantly, we have also helped to identify and nurture neighborhood leadership through helping these organizations. We believe that the CDC phenomenon in this country today is one of the most hopeful and dynamic and promising social movements on the urban landscape.

At a time when our society is hearing an awful lot of bad news, and there is a lot of bad news from our inner-city communities, these organizations have emerged, they now number in the thousands. They have built or rehabilitated over 300,000 units of housing.

The number and quality of these organizations is growing very, very rapidly. And an infrastructure of both public and private support for their efforts is forming rapidly across the country. It is very local in nature, but increasingly there are national sources of support.

An organizing principle, Mr. Chairman, for my brief comments this morning, will be that it is in the national interest to continue to build the capacity of these organizations. They are very important end-users of Federal housing and community development programs, but they are doing far more than that.

They are rewaving the social fabric in some of the most difficult communities, building a sense of ownership, and power in communities that have been left out of the mainstream and disinvested and neglected by many mainstream institutions.

So in this sense, I wish to politely differ with a witness on the preceding panel who said that sponsor characteristics should be irrelevant to housing development. I would argue very strongly with you, sir, that in very depressed communities in both urban and rural areas, in effect, the private market has ceased to function.

There is an absence of private entrepreneurs or mainstream institutions willing to conduct business in those areas. And similarly, there is a very great shortage of good options for public investment. It is very difficult to make good public investments in very depressed communities which are not organized.

So these special purpose institutions in both rural and urban areas have proved themselves to be highly effective in recreating the conditions for investment, stabilizing the community, producing a track record of victories and new stability that encourages the private market to reform, and in effect manufactures good options for public investment, including good options for the use of the programs that this subcommittee has created.

These community development corporations are gaining for themselves enormous new support every day. They represent a very pure expression of self-help. They are pragmatic and focused on tangible outcomes, and they have drawn the private sector very heavily into these efforts of a quality that I would argue also has improved the performance of public programs that they are using as well.

Mr. Chairman, I invite you and other members of the subcommittee, and I know that many of you are very familiar already with the work of these organizations, but they are making such dramatic progress in communities that a few years ago were thought to be irretrievable, that it is still an untold story of enormous national significance at a time when we are, as I said, much too pessimistic about the future of these neighborhoods.

To turn specifically to the Federal effort, I wish to praise this subcommittee in particular for being a leading force in completing what I regard as a new architecture of Federal effort, that very much contemplates that the action is on the local level and that Federal resources must be provided in a flexible way so that these organizations can do their marvelous work of knitting together different resources at the local level.

Some of the major elements of this architecture are the Community Development Block Grant Program, the oldest piece of it, if you will, the HOME Program, the low-income housing tax credit, and very importantly, CRA, and as of last year, the new government sponsored enterprises legislation that is increasingly pressing the private sector engagement that is so crucial.

And I would urge that this be seen as an architecture of mutually reinforcing programs and incentives that are using the Federal system very well and empowering the growing number of these organizations to refashion the destiny of their communities.

The HOME Program in particular is very important. This program got off to a slow start because of the initial regulations and compromises that were necessary for its passage.

Again, thanks to the actions of this subcommittee, the program was cleaned up and it is now functioning very, very well, in effect, as it was contemplated in the Cranston-Gonzalez National Affordable Housing Act as another flexible resource that can be plugged in to locally generated and driven housing strategies.

So to focus on just a couple of specifics, the HOME Program needs to be protected in its infancy now that it is showing such promise. We hope that a better job can be done than is proposed in the administration's budget of funding this program, and urge the subcommittee to take that on as a major task.

I would mention two other things that we think are very important. We need to continue to find resources to build the capacity of these community development corporations and like organizations. They have great needs for training, for operating support, and for community organizing assistance. And there are very few and very small pieces of various programs that are available for such capacity building support.

This is something that it has been our experience the private sector is prepared to invest in at the local level, and so the Federal Government and other levels of government can attract partners to this effort of building and sustaining these grassroots organizations.

And finally, I would say that a sufficient platform has been created in many communities through housing development that much more direct and frontal efforts at economic development are now both necessary and possible, and indeed two of the organizations you will hear from later in the panel are embarking very aggressively on economic development efforts, and we hope that the subcommittee explores new ways to directly support grassroots neighborhood level economic development efforts.

There is much more to say, of course, Mr. Chairman. I submit my written testimony and would be happy to answer any questions you may have.

Thank you.

[The prepared statement of Paul Grogan can be found in the appendix.]

Chairman GONZALEZ. Thank you very much, Mr. Grogan, for an excellent presentation.

I am going to ask our distinguished colleague from New York to introduce the next witness. Ms. Phillips is a fellow New Yorker.

Ms. VELAZQUEZ. I know. Well, I am very pleased to have Ms. Phillips here, and she represents some heroes in our community who are working so hard and are so committed to better the quality of life in our neighborhoods.

Welcome.

**STATEMENT OF KAREN PHILLIPS, EXECUTIVE DIRECTOR,
ABYSSINIAN DEVELOPMENT CORP., NEW YORK, NY**

Ms. PHILLIPS. Thank you very much, Congresswoman. I appreciate the opportunity to come before you today.

My name is Karen Phillips and I am executive director of the Abyssinian Development Corp. And we are located in Harlem, in New York City, but I am here really representing the thousands of groups like myself, community-based organizations, and I know for sure some of the ones that are in my New York Congresswoman's area, Los Surez and David Pagon, and some of the people who are out in what we call the "hood" (in the neighborhood), doing work to rebuild our own communities.

That is the importance of me being here today, to say that the network of organizations like mine that are small, that are struggling and growing, and represent the people there in the community to form partnerships whereby we can use the Federal support that we get, but also leverage that with private money and work with the people living there to improve our own neighborhoods.

I have testimony here that tells a little bit about my corporation, and I would just like to use ACD again as an example of things that are happening all over the country and how important it is that we get Federal support for our efforts and to have workable programs that we can use to better our community.

We would like to support this bill, H.R. 3838, to help us do what we do better. We would like to have sustainable change in our neighborhood. The Abyssinian Development Corp., has grown out of a church, one of the few institutions in distressed areas that is controlled by the people there, especially in the African-American community.

The organization was formed only in 1989. We are very young compared to some of the other groups that have been around a lot longer. Our mission was one of comprehensive redevelopment. We would like to rebuild our neighborhood, and to do so we build homes, not just housing units, and to have a home in a stable neighborhood, you must have places for people to work. So we are also working to spur the economic revitalization of the area, as well as helping to recreate social systems or connect people to programs and facilities. ACD helps improve residents lives through improving the delivery of community and social services.

This is the comprehensive nature of what we do. ACD started its full-time operation in 1989. I first volunteered for 2 or 3 years to put together the plan for this organization. We started out with a \$50,000 grant from the Local Initiatives Support Corp., to basically pay for the setup of an office and for me to come on-board full time.

As my mother says, "to quit my good government job to come work for the church." But the rewards for that are just numerous. We now have approximately \$50 million in development activity, \$30 million of which has been invested in the redevelopment of housing, and the remainder in other programs in the community, like a Headstart facility for 100 children, and transitional housing for homeless families.

We are also embarking on two \$10 million economic development programs, one which will be a 53,000 square foot supermarket to serve not only our small community, but the whole of central Har-

lem, which includes the East Harlem and West Harlem area, as well as the people in other areas.

Also ACD is working on the redevelopment of an historically significant building that is right around the corner from our church, which is the Renaissance Ballroom. It will be a catering facility and have other commercial uses in it, but the thing is that it will generate about 150 jobs. We are hoping to set up a training program for the people in our community for food service management and operations.

But those are the ways that we look at our neighborhood in a comprehensive fashion, and can go out and advocate on behalf of the people who live there. Really, what I see myself doing is translating their needs to the private sector, for one, but also to the public agencies, to explain how policies can be most effective and be sustainable.

The most important thing that we do is to work with the people in the community, to get them to be a part of the change that is happening there. Far too often, these people who are seeing things done to them and for them, have not felt a part of it or empowered to contribute to that.

And I would like to just give you an example of one block that we have redeveloped, which is several blocks away from the church. The first effort of the church, even before I came aboard, was to build senior citizens' housing through the HUD 202 Program. And we needed a site that was large and city owned, and we chose one, and looking at an area where we thought there was some strength, since there was some stable middle-income rental housing around it, only a block away.

We started construction and then realized that this block had some serious drug problems on it and some other issues that would not make it safe for our seniors to live there. What we did, using the institutional strength of the church and having an organization and a staff, was that we pulled together the people on the block and brought in the political leaders, some of the people representing the city of New York, and also the police to work with the residents there. The actual tenants there or the residents on that block formed a block association and with our help were able to make a change in the character of their neighborhood.

With other programs that come from the city, we have the tax credits and other funds from the Federal Government, we have about 12 buildings on 1 block. We have an active block association there, we have a mixture of incomes, which is very important, so that we don't rebuild a ghetto. We have a stable neighborhood with moderate-income people who own their condominiums, we have low-income working people there, we have our senior citizens there. And we have seen an increase in investment by other people who live on the block, private investment and bank financing as well.

I would like to just point out a couple of areas of the current bill that could help support the efforts that the Abyssinian Development Corp., and other community-based organizations are doing. The flexibility of some of the funds that we are getting is important and, of course, to always reduce the amount of the paperwork that we have to do, since we have a very small and lean staff. Part of our charge as well is to attract money from private sector founda-

tions or other sources to bring that together with the Federal funds.

Economic development, as I mentioned, is a very important component of what we do, and we use the community development block grant funds from the city, but in very small amounts. Actually, I believe \$20,000 comes to my staff for organizing and working with tenants, out of a \$650,000 budget.

We hear about some of the other programs that are coming down the pike that are targeted for economic development. The LIFT Program would be something that would be very helpful to us in continuing the work on the two projects that I mentioned and others, as well as core support for the operations that will allow us to attract other funds.

There are community security issues in our neighborhood and we are hoping to be working with some of the funding that comes out of the Crime bill. In terms of some of the programs that affect the housing, if we could have the security costs be considered in our funding like it is right now in the public housing funding.

The community organizing, our ability to work with the residents, to get them involved with what is going on, to have them participate in our planning process, is very important in the overall redevelopment of the block.

But building the capacity of organizations like ours and working with groups like LISC and Enterprise is very important to continuing and increasing the influence that we will have on our communities.

I would like for you to please read our detailed testimony and as well to answer any questions that you might have.

Thank you.

[The prepared statement of Karen Phillips can be found in the appendix.]

Chairman GONZALEZ. Thank you, Ms. Phillips. And I might say that the written testimony that you gave us was very good and it will be in the record exactly as you gave it to us in writing. And it will follow your oral presentation.

Mr. Harvey.

STATEMENT OF F. BARTON HARVEY, III, CHAIRMAN, THE ENTERPRISE FOUNDATION, WASHINGTON, DC

Mr. HARVEY. Thank you, Mr. Chairman, and Congresswoman Roukema and members of the subcommittee. I am Bart Harvey and I am chairman of the Enterprise Foundation, and I think I speak for both myself and Paul Grogan in saying what a special pleasure it is today because we are appearing with Karen Phillips and with India Pierce who you will hear. And they are two of many heroes and heroines from across the country in the community-based movement. They are doing the tough work. They are every day on the line. And they are the positive leadership in our cities today.

There is an instructive story on the birth of The Enterprise Foundation, which I think bears on this hearing. Enterprise was started in 1982 by Jim and Patty Rouse, and its mission is to provide the opportunity for decent affordable housing for all very low-income Americans in a path up and out of poverty.

But it really started in the mind of Jim Rouse 10 years before when he was CEO of the Rouse Co., and he was approached by two women. The two women were from here in Washington, from Adams Morgan. They came up and they said, our area has been devastated by the riots, there are terrible conditions, we want to do something.

And he gave them the conventional wisdom at that point in time, and he said, there is nothing you can do, this is too big for you, call your Congressman or Congresswoman, and get the government to do something. They ignored his advice, and they came back later and said, the \$1,000 we have to our name we put down on this building called the Ritz, won't you come help us finance it? And it started him on a 10-year journey.

And that is Jubilee Housing in Adams Morgan, and it went from 1 unit to 8 apartment buildings, nearly 1,000 units of housing, all run by former tenants. It started a job placement program, it started a health clinic that served 20,000 people.

And, Mr. Chairman, as the area got better, it brought private investment back in. It is a very productive area of the city right now. That is where Enterprise started from. Jim said there have to be lots of people out there and lots of leaders out there who could prosper with some resources, some outside help in technical assistance, and this is the way we can rebuild from the community up.

And that is what Enterprise is all about. We are now in 150 different communities, working with 388 nonprofit groups, and we have helped invest, and I use that word "invest," over \$1 billion in those nonprofits, through grants, loans, and mostly the tax credit equity from the Tax Credit Program.

And we have helped provide over 36,000 units of housing for very low-income Americans, as well as a significant number of formerly homeless individuals. But the numbers don't do any justice to what is going on. Each investment is not just a financial transaction, but it is an integral part of the physical and social fabric of each neighborhood that we are dealing in.

And it all happens through people like Karen Phillips and India Pierce. We were asked by our board why do you do housing when you need jobs? And housing is absolutely essential, because it is the platform for everything else. It is the starting point for stability and dignity and respect and a stable community. And I can't over-emphasize that.

But if you were to correct all the housing in the country, you will not have changed our communities. And all of the community groups that we work with have other agendas. It is not just housing, but using housing as a point of entry into the lives of people to help make them as productive as they can be.

It is people helping each other. As Paul Grogan so ably set out, there is a tremendous growth in the nonprofit movement across the country, and they have numbers that go with that growth as far as production goes. And I think we also get asked by people on our board who are with for profits who say, "Why do you always stress nonprofits?" And it happens that nonprofits are working in areas where for profits simply can't work. And they are areas that have been abandoned.

However, if the community begins to pull back together, if the worst aspects of those communities are healed, you will see private investment coming back. And we have seen it time and time again. So there is a multiplier effect to the work that these nonprofit groups are doing across the country.

I would like to address capacity building, which is difficult because it sounds vague. And a lot of people associate this money for capacity, as Tom Wolfe said in "Bonfire of the Vanities", "Paying for steam is paying for nothing at all."

And let me tell you from our experience and from LISC's experience, that is not the case. We provide seed capital, up-front development loans, as well as assistance on acquisition, on management, construction, and operations, and we help nonprofit groups access the complex financing that they need.

But each group is accountable for its results. We can't get repaid unless they produce the housing and finance out the loans that we take out up front. No one pays for steam, and if you do, you only do it once. And more likely what happens is you have groups like Abyssinian Development and Mount Pleasant NOW that multiply over time, or Asian Americans for Equality or as Congresswoman Furse will know from Ray Ramsey, the groups that work in Oregon.

And you see an extraordinary return on your money. These groups are dealing with long-term problems and they need long-term financing to develop their staff. The Enterprise Foundation tries to make them as self-sufficient as possible, and we fight cities about development fees.

Some cities say because they are nonprofits, they should get either minimal or no development fees. They cannot go on and do the next project unless they get adequate development fees, the same as the for profit sector gets.

I would like to just touch on a couple aspects of the legislation that has been terrifically important for nonprofits and I say, Mr. Chairman, we don't need new legislative programs. We need to fund the programs we have and to simplify them so that they can work more easily and so that groups don't have to rely on experts all the time to put the financing together.

It has been a heck of a struggle to get the HOME Program, to work the way it ought to work, and we are getting there. It is at this point that the funding starts to get cut on the HOME Program. It is critically important to nonprofits.

There is a set-aside of 15 percent. There is also a voluntary 5 percent capacity building provision in HOME, which is very important. And it is also limited so that no one organization can have more than 50 percent of its money coming from the Federal Government. And that is as it should be, because it should be viable and should be able to get other funds.

But this money is critically important if we are going to build the capacity to meet the needs that we see in our cities. I would also say that there is technical assistance that has been held up at HUD that was to go along with the HOME Program, and we hope that can get out on the streets so that for new, nascent nonprofits, that they can get the assistance that they need so they can take advantage of the programs that are out there.

Community Development Block Grant funds are critically important as well, and they are flexible and they come in the right form, in that they can be used for a number of different activities by non-profits.

I will just touch briefly on two other programs that are outside of the jurisdiction of this subcommittee, and that is tax credits, which are a very important part of the production process, and particularly the Community Reinvestment Act.

We are all fighting uphill unless there is credit available in the neighborhoods in which we are working. And I can't stress more that anything that you can do to make sure that there is a Community Reinvestment Act that is based upon performance by banks, by actual loans and credits that are going into these neighborhoods, is absolutely essential.

And finally, I just conclude by thanking you and thanking the subcommittee. You are always concerned about what happens to the individual in the community and how whatever you do translates down to that individual.

And we are very grateful for that as we work with these groups working with individuals. And I would like to also compliment Nancy Libson and Joe Ventrone for their hard work on behalf of this subcommittee.

Thank you very much.

[The prepared statement of F. Barton Harvey, III can be found in the appendix.]

Chairman GONZALEZ. Thank you, sir.

Ms. Pierce.

STATEMENT OF INDIA L. PIERCE, DIRECTOR, MT. PLEASANT NOW DEVELOPMENT CORP., CLEVELAND, OH

Ms. PIERCE. Good afternoon, Chairman Gonzalez, members of the subcommittee. My name is India Pierce, executive director of Mt. Pleasant NOW Development Corp., in Cleveland, Ohio.

I am here to represent community development corporations who, like myself and like Ms. Phillips, have been fighting a struggle. It has been a long, hard battle. We started 5½ years ago, the same thing, a small organization with four staff that started out doing three or four new or rehabilitated homes in our community, doing weatherization and free paint programs.

Mt. Pleasant NOW in the last 4 years has grown to a staff of 13 that now has 3 new construction programs to produce 115 new homes to low-to moderate-income families in our neighborhood.

We have taken over 40 abandoned, blighted HUD and VA foreclosed homes, and rehabilitated them to quality, affordable homes that families are now living in. We have done property management now of 60 units of housing.

We are in the process of starting a fourth new construction program using low-income housing tax credits to try and do another 50 homes. We have served over 1,000 residents through our free weatherization program, 1,500 through the paint program.

We work with Youth Opportunities Unlimited during the summer to provide youth with summer jobs. We also work with the WPA Program to help those on general relief get their benefits through those programs.

Mt. Pleasant NOW has looked at our area and its strategic bases. We started out doing housing here and there because we thought that would solve the problem. What we found was that you just can't do housing. You have to look at the other issues that go along with it.

So now we are doing economic development, we are trying to revitalize a 2-mile commercial corridor that has over 50 percent vacancies, to turn it into demolition of vacant abandoned structures, to new construction for housing, to look at some of the areas for retail modes, to take some of the areas and make off street parking for existing businesses.

Through our efforts and through our city administration, we have grown. The capacity building that they talk about, we were one of the fortunate organizations to have Enterprise, LISC, Neighborhood Progress in the City, and other foundations help us.

And because of that, we have grown rapidly with that help. Mt. Pleasant is an area that serves 25,000 low- to moderate-income families. And over the past 3 years, we have seen such a tremendous change. We couldn't attract businesses to our area. Now that we have 50 houses newly constructed up, we can't keep the businesses out.

We have businesses coming in to us every day saying we want to look for space on Kinsman, which is in the southeast side of Cleveland, that people normally say, I don't want to go over there. We have businesses coming in saying, you have a storefront renovation program, we are ready to invest in our businesses. And we are not talking about facade renovation. We are talking about taking structures that have been there and putting \$60,000, \$70,000 of improvements and getting the businesses to buy the vacant buildings next to them, the vacant lots next to them, and to improve them as well.

What I would like to say is that I am just one organization in Cleveland. But there are many like us. I am the president of Cleveland Neighborhood Development Corp., which represents 40 CDCs around Cleveland. Once a month, we come to the table to discuss what strategies we can take throughout Cleveland, how we can work with our local government, our State government, how we can work with foundations, corporations, and find ways to use our lending institutions to better our neighborhoods.

We have been somewhat successful in attracting the private developers, attracting the lending institutions to start putting their money up front and helping us with that. But the struggle is still there.

We need others to help us do that. We need the government to take a look at what is going to make it work better. If we take the legislation that we have and make it a little more user-friendly so that our projects aren't held up due to interpretation but geared more to productivity, I think that we could work even faster.

I would like to take a few minutes to talk about why CDCs are important. I think we have found in Cleveland that we are the preferred vehicle for the delivery of programs in our area. We are involved in multimillion dollar complex deals that require a lot of sophistication. And we are the voices of our community.

We realize that it takes more than just going out and talking to the community, but you have to be able to talk to the people in higher areas to get your point across. We have attracted many dollars into our neighborhoods by showing that we have been successful, that we can attract developers back.

Five years ago, you couldn't get a private developer to come into the city of Cleveland or even close to the city. Now, we have developers coming in, fighting over deals in our neighborhoods. And that has been a long, hard fight also because of our mayor forcing the lending institutions to sign CRA agreements, to invest money in the communities, and holding them to that.

That is one thing Cleveland has been successful with. In Cleveland, CDCs right now are producing 2,025 units of housing each year, which comes to about \$120 million. Cleveland Housing Network, which is an umbrella organization that has 12 neighborhood groups, each year does about 400 housing units for low-income families.

Cleveland Housing Network last year celebrated its 1,000th home celebration. What that meant to LISC, Enterprise, the neighborhood groups, was that we had helped families, not just move into what they call decent affordable housing, what I call quality housing, because there is a difference, I think that housing has to be quality because 15 years from now we want to make sure people are having the same living standards that they have now.

You can produce housing, but it has to be quality so that we don't face the same problems down the road. That was a monumental occasion for all of us, because we realize how many lives have been touched and how many people had been helped.

And I would like to say that I think it is important that this subcommittee, that HUD, continue their hard work and be aggressive in making sure that HOME is funded, that low-income housing tax credits is kept on, that CDBG is maintained.

CDCs have worked hard to do what people say we can't do. We are on the streets every day. We put the shoes on, we put the hours in. And it is not an easy job. And it is a thankless job at times, because people really don't understand what it takes to do what we do.

But beyond that, we need to start looking at health reform, we need to look at education, we need to look at crime and safety. Because without addressing those issues, all our efforts are in vain.

I would like the government to have faster processing of HUD foreclosures in our area so that we can buy and rehabilitate the homes and make that process work faster. I think finding comprehensive strategies to do economic development in our communities is very important so that we can create the jobs that we keep talking about for neighborhood residents.

And in closing, I would like to say that we have created an industry. And with the necessary support and the mechanisms needed, that we can be successful, but we can't do it without your help.

I would like to thank you for this opportunity to express my concerns and I would take any questions that you may have.

[The prepared statement of India Pierce can be found in the appendix.]

Chairman GONZALEZ. Thank you, Ms. Pierce.

We have a recorded vote and we have 3 or 4 minutes to make it so we will recess briefly. I urge the members to return, and we will pick up where we left off.

[Recess.]

Chairman GONZALEZ. I want to thank the members of the panel for your patience and understanding. It is one of those happenstances that the House legislative schedule is complicated and therefore calls for these interruptions.

I have a series of questions that I believe I will defer to submit them in writing because they follow through on some of the observations you made.

[The questions referred to can be found in the appendix.]

Then my request is to get recommendations from you on some suggestions you might have. For instance, on the CRA and the HMDA questions and how it would be possible to stimulate conventional lenders in secondary market capital, so that it can be channeled in a sustained and stable way rather than a special occasion thing, and other like questions.

The testimony was so good that I thought what I would do was submit these specific questions to all of the panelists—I have some for each—and then make some points that would be relative to them but also your more immediate testimony.

I have had a chance to look over your written testimony, and I am very grateful for its comprehensive presentation. Also the recommendations are very good, very specific.

First of all, Mr. Grogan, I can't say other than that I agree with you totally. Even with your beginning observation that you were glad you were here when you heard the discussion on the first panel. That is the perennial argument, and I know that your experience has given you your outlook.

In your prepared testimony on page 11, your recommendation that new economic development programs should receive separate funding and not be an allocation from CDBG or other program funds, I think was very, very good, for the reasons you gave. Taking money from CDBG would create an unnecessary zero sum problem, and new economic development initiatives should be separately funded.

I watched, over the course of the years, the course of events and developments with respect to CDBG, the development funds, and the like. When I came to the Congress about the only thing you had was a very crude program adjunct to the—I believe it was an adjunct to the Department of Commerce somewhere.

In fact, I am trying to recall the exact title of that agency. Well, it was at one point an agency. It became the area redevelopment or development agency, it is very similar to such things as the drug or narcotics program. There was no such program.

In the beginning it became very, very feeble. But through the years you have these periods or cycles in which drugs, crime and the like seem to pick up quite a bit of acceleration and then you get some action. But it is disjointed.

When the CDBG Program came across the board in the 1970's, it was following the tide of development toward block grant approach techniques. That translated in the other areas—for instance, the area of redevelopment became the economic develop-

ment, EDA. In later years funds from EDA, for instance, were used in a way that some CDBG funds are being used today, for stimulating the economy or employment or what have you.

And then, more specifically, the UDAG. Of course, always at the bottom of it was what you more or less implied by your statement, the lack of desirability of, quote, unquote, government programs or government-sponsored programs that had a connotation to some philosophies, you know, that it wasn't proper. As a result, I think the cause for what seems to be now an incomprehensible maze and whatnot of names is exactly due to that, nothing else.

But, nevertheless, I have been to the areas where I have seen the results of the initiatives. I was here when the Ford Foundation first began its funding in the late 1970's and have been very much impressed by the work that has been done.

I have also been out in the field where some of the activities have been very, very successful. After I became chairman, within 1 year we had gone to New York four times in the name of the subcommittee. We went twice to the south Bronx. But before that we went to Brooklyn five times, and one of those we went to the Queens, right at the border of the Queens borough and its neighbor.

For instance, Mr. Rouse was responsible for a Nehemiah Program in Baltimore that we visited just 2 years ago. We were in Baltimore, and we saw that. In fact, Mr. Rouse happened to be there, involved in his multiple activities in housing and shopping center development and all, nationwide.

I wanted to thank you, Mr. Harvey, for working for that effort.

The Nehemiah Program, which we went into with the newly arrived member of the subcommittee of one Congressman, Chuck Schumer, went to his Brooklyn area. There, because of the fact that the Federal Government had withdrawn, the city of New York and the State of New York—I have always said this—did more than any one city or any one State to try to fill in the gap.

Of course, it is impossible. The Federal Government has to have a presence. There is no long and short about it. This is a national question of how much credit and which emphasis and priority should be placed to shelter in safe, sound and decent housing Americans, poor and rich.

The idea that private volunteerism or private enterprise can substitute was never viable with me. The truth of that is that the only housing program this country has ever developed for the very poor is a very much maligned, unjustly, public housing. But public housing isn't constructed by the government. It is constructed by private enterprise. So to the extent that private enterprise can go into it, into the construction of housing for the very poor, is in direct proportion to the government subsidy of that construction.

But when you get the middle financing and it isn't done properly, then you have so much of that erstwhile financing going off other than to the direct question of funding for construction and occupancy of decent housing for the very poor.

The government has withdrawn. There is no question. And the withdrawal began with the philosophy that became predominant after 1980, 1981. But actually the process had started long before that. As far as public housing was concerned, it always was under

attack. That is the reason why some of the workings didn't function. Because philosophically it was always fought.

Ironically, in 1959 it was under such severe attack that it faced extinction. Actually, the people who saved it—this sounds shocking, but that is the history of it—were two Republican stalwarts, not Democrats. They were joining the whole flock in denouncing public housing.

But it was Senator Taft of Ohio and, believe it or not, Senator Joe McCarthy. If McCarthy hadn't become famous or infamous in the other respect, he would have made a note on housing alone. He was a very strong housing proponent, and it didn't necessarily stop at public housing. But it was mostly Senator Taft.

As a result, whenever the Congress did act, it was fragmentary. It was ad hoc. You just can't do any good planning, any more than the Congress has had good administration on the Federal level since we went into the continuing and dire emergency supplemental appropriations. From month to month, session to session, and what I think is absolutely ridiculous, from Congress to Congress. There is no way you can operate any kind of a business the size of even a department on a month to month or a half a year to half a year basis in an orderly sustained way.

I just wanted to compliment and thank Ms. Phillips for the work. And, of course, you acknowledged the great help of Mr. Grogan's and Mr. Harvey's enterprises. I think that had it not been for these private initiatives we would really have a disruptive, very critical period of social disruption right now.

I don't think we can avoid it, sooner or later, because we have just been neglectful too long. There is a limit to how much human beings take before you have social dislocations. I hope not. I hope I am dead wrong. But I don't see how. I think it would have been a lot worse if we hadn't had these agencies, particularly in these very devastated areas, in which you can say almost by the bootstraps the people themselves through the leadership of your agencies have done it.

I saw what happened in the south Bronx, now represented by Ms. Velazquez, but at the time we went there following the Nehemiah, we saw a whole burned out section all of a sudden flourishing with beautiful brand new dwelling units that were affordable for the average family. Through the use of the fact that the land was deriving or not paying any taxes or anything the city donated it.

Then you had seed money from the City Finance Authority and the State, and the churches got together and raised as much as \$2 million on their own. You had leaders like Father Giaganti in the south Bronx, and you can go there now and see a beautiful development where it once looked as if it had been bombed out.

Now just about 1½ blocks away you have another 4-block area which never got to the point where it could be.

But, certainly, it was the people themselves, given the proper leadership, which is really all the people ask for. The leadership came from these organizations, nonprofit, if you want to call them that. But, anyway, I wanted to compliment you and say that I will submit some questions in writing.

Ms. Roybal, do you have any?

Ms. ROYBAL-ALLARD. Mr. Chairman, I regret that I wasn't here for the testimony.

Chairman GONZALEZ. Well, we understand.

Ms. ROYBAL-ALLARD. I would like to have the opportunity to read the statements and then perhaps submit questions at a later date.

Chairman GONZALEZ. OK, very well.

Let's see. There was some other notes I had made.

Oh, yes. I believe you, Ms. Phillips, also mentioned that in many parts of the country, I would say the majority, you don't have the efforts that New York has—philanthropic efforts, you call them.

You also referred to the proposal, which I call CVF or the community viability funding. We had Secretary Cuomo here just last week, and he expanded a little bit on that. But at this point it is a plan he visualizes. I don't think that it is quite in place yet.

So it may provide some adjunct aid to organizations such as yours. At least as I heard him explain it, I think that would fit in perfectly as an additional source. I hope that would be the case. But your testimony will enable us to come back to him and kind of refine what his explanation was.

There was one question I thought maybe I should ask, either Mr. Grogan or Mr. Harvey. Maybe it will be best to ask it now for our purposes. And that is with respect to the HOME Program and its requirement that the development organizations own or sponsor any project for which it receives set-aside funds.

In some areas of the country, and particularly in areas that we had testimony earlier, the rural areas, there isn't that accessibility. It would preclude the use of the CHDO's funds even if there are some eligible. Would there be any objections to permitting the CHDOs to administer housing programs such as owner-occupied housing, rehabilitation programs where the CHDO would not own the housing but where the comprehensive housing system indicates that this is a legitimate housing need in the area?

You might want to think that over and then answer, but I will put it in writing anyway.

And with that, we end up as we started by thanking you very much for your great help and your patience. It is about 1 o'clock, so you still have a little time for lunch. Thank you very much.

[Whereupon, at 12:58 p.m., the hearing was adjourned.]

H.R. 3838; HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1994

**(STEWART B. MCKINNEY ACT PROGRAMS FOR THE
HOMELESS AND SUPPORTIVE HOUSING PROGRAMS
FOR THE ELDERLY, FOR PERSONS WITH DISABILITIES,
AND FOR PERSONS WITH AIDS)**

TUESDAY, APRIL 26, 1994

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING
AND COMMUNITY DEVELOPMENT,
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2128, Rayburn House Office Building, Hon. Henry B. Gonzalez [chairman of the subcommittee] presiding.

Present: Chairman Gonzalez, Representatives Vento, Roybal-Allard, Watt, and Thomas of Wyoming.

Chairman GONZALEZ. The subcommittee will please come to order.

Let me thank the witnesses for being here this morning in answer to our invitation.

This is the seventh hearing in the course of our intentions to move the extension and reauthorization of the Basic Assisted Housing Program, all of which are due for renewal this year. We hope we stay on schedule and soon have a markup.

It wasn't until this weekend that the administration, that is HUD, presented its bill in legislative form. We will do what we can to accommodate those portions of their legislative package that will not impede our action.

We don't have too many working legislative days this year. The focus of the hearing today, of course, is the Stewart McKinney Homeless Assistance Program, which is administered by HUD, the Federal Emergency Management Agency, the supportive housing programs for the elderly, and persons with disabilities, and persons with AIDS.

While the economy has steadily improved in the past few months, ostensibly at least on the statistics side, the reality is that in the real world out there in our society, we still have distress. We can't forget that the social ills of our society do not necessarily disappear even with a so-called improved economy, and they do not disappear with short-term assistance programs.

There is a great need to funnel the scarce resources, which up to now the Congress and the executive branch have been willing

to target for these problems, into permanent housing programs, or into, as far as is possible, addressing the salient underlying causes.

I realize that the makeup of each homeless person differs as some may truly only need shelter due to temporary unemployment and others may need permanent housing accompanied by a variety of services. But at bare minimum, these are our fellow citizens, human beings. These are families, and they all need housing.

Once we have established and agreed to that underlying fact, we can begin to debate on the need for services to accompany these programs. The first 8 years after December 15, 1982, when this subcommittee had the first hearing on what turned out to be homelessness, we had to meet the steady resistance of denial on the part of the administration then in power and, in almost every other sector, a denial to accept the fact that we had a new and formidable social problem.

All the witnesses today will attest to that need. To expect a homeless person of 2 years to receive housing and then instantly join mainstream society is both ludicrous and unfair. To expect a recently displaced and unemployed mother and/or father to know what to do to assist their family is both unfair and unreasonable. To expect a mentally ill person who has lived on the streets to successfully function in an unsupervised setting is both unreasonable and ill-advised.

Today we have gathered to hear from the people in the communities to determine where to take the Homeless Program we have created. The witnesses' reaction to the administration's proposal to consolidate the McKinney Program will provide the subcommittee the necessary insight and the data from which we may determine how to revise the Congress' short- and long-term plans to alleviate and one day perhaps eradicate homelessness.

The second panel will address the supportive housing programs under the subcommittee's jurisdiction. As the Nation moves toward the year 2000, it is facing a significant change in demographics, as we have since 1945. The number of people over 65 years is growing rapidly, causing a need to ensure that Federal assistance programs for that age group are both effective and sufficiently funded.

I believe that the effectiveness of the supportive housing programs for the elderly has been attested to in the past. Unfortunately, the administration closed its ears to these comments, as the budget request for fiscal year 1995 included only minimal funding for the Section 202 Program. This seems counterproductive, in my opinion, and contrary to the subcommittee's commitment to providing for the elderly.

We also will hear today about the supportive housing programs for the disabled and those with AIDS. The AIDS Program was in the Congress before last with Congressman McDermott being a freshman member of this subcommittee.

Since then, he has reached great heights of power in the so-called power structure of this great House. He went on to the tax-writing committee, and in fact wisely, because he is now heading one of the innovative approaches toward the comprehensive health insurance battle.

But on top of that, I notice that he was chosen to chair the Ethics Committee, which I consider to be a fate worse than death. I

hope to hear that persons with AIDS are able to partake in all supportive housing programs available to those with disabilities. I also hope to hear that people with disabilities are finding housing accessible and affordable.

With that, I welcome the witnesses, once again thank you for your great help, and the work you have been doing all along. I recognize Congressman Vento.

[The prepared statement of Chairman Gonzalez can be found in the appendix.]

Mr. VENTO. Thank you, Mr. Chairman.

I regret I was late. I was trying to conclude the Members of Congress testifying in my own committee. I want to thank you for convening this morning's hearing and for assembling the impressive list of witnesses and experts on this topic.

As you know, for the past year I have had the duty to chair the special task force, of which you have been a member, and other members of our committee, examining new and past initiatives to deal with the problems of homelessness. The Speaker's task force has the opportunity to study and review the work we have done in the past 10 years in trying to end homelessness in our Nation. Since last March, the Members have focused on issues and, I think, have done an incredible job in terms of coming up with a report on this important initiative.

It is not surprising that the issues of affordable housing, health care, mental health care, drug treatment, job training, unemployment, the overall lack of safety nets for many Americans, are the principal cause of homelessness, the demographic, and structural economic changes in our society that continue to persist.

The task force found that we can no longer rely on solely short-term emergency responses inherent in the McKinney Act Programs to solve the issue; that Americans who are experiencing homelessness have been victims of mental illness or substance abuse and, more often, victims of growing poverty in the Federal social program responses heretofore to the 1950's, not to the 1990's.

So I think the solutions that we have pointed to are in glowing generalities good, but it is the specifics, of course, that we have to respond to.

I especially appreciate the many witnesses on this panel that participated and provided us with dramatic insights into the programs.

Mr. Chairman, I want to put the rest of my statement in the record and thank you again for holding the hearing, and the work of the witnesses, many on this panel, who have been helpful.

Mr. Chairman, I think it would be good to put the task force report in the record too, if you have no objection.

Chairman GONZALEZ. Without objection, it is so ordered.

[The prepared statement of Mr. Vento and the task force report can be found in the appendix.]

The first panel consists of Dr. Dennis P. Culhane, assistant professor of psychiatry, senior fellow, Leonard Davis Institute for Health Economics, University of Pennsylvania, Philadelphia. Once again, we are in his debt.

Ms. Marcia A. Martin, executive director of the Interagency Council on the Homeless.

I beg your pardon. Mr. Thomas.

Mr. THOMAS. Thank you.

Chairman GONZALEZ. I apologize. I recognize you.

Mr. THOMAS. That is all right. I do have a short statement.

Chairman GONZALEZ. Certainly.

Mr. THOMAS. I am pleased that you are having this hearing. I do not have the long time experience of you and Mr. Vento, but there is a draft report which I am sure you are familiar with. It has a goal, "Providing a decent home and sensible living environment for every American. To achieve this goal, the report recommendation, number one, implementing emergency measures to bring those who are currently homeless back into our communities' work force and families; two, providing necessary housing and social infrastructure for the very poor in our society to prevent the occurrence of homelessness."

Several dilemmas arise, of course, from these recommendations, which need to be explored, and that is why we are here, to determine the appropriate legislative measures. For example, how much of the increase in homeless persons and families on our streets is due to general economic conditions, or a lack of affordable housing; how much is due to what Howard Barr calls a mission in pathology.

A good deal of available evidence suggests that homelessness can be due to State policies which dump those with mental illness and drug abuse, or those with incurable diseases such as AIDS, into the streets.

If this evidence is correct, it becomes necessary to question whether HUD's mission requires it to cope with the mentally ill and/or addicted personalities. Similarly, significant issues remain on how a homeless person should be defined.

Up to now, homeless people have generally been defined as those who are poor and have no personal residence. The draft report, however, suggests expanding the definition to include single mothers sharing an apartment with their own mothers, two families doubled up with two or three children sharing a bedroom, and someone without sufficient savings to pay several months' rent if one's job were to be lost. Such a definition is extremely problematic if, as recommended in the report, HUD were required to prevent the occurrence of homelessness, the cost of prevention is estimated to be upward of \$15 billion.

So we have a very difficult task, and I am pleased you are here to share your feelings about it.

Thank you, Mr. Chairman.

Chairman GONZALEZ. Thank you, Mr. Thomas. Once again, I apologize.

To continue, we have Ms. Nan P. Roman, the vice president of the National Alliance to End Homelessness, based here in DC; accompanied by Ms. Cassaundra Direkston, Calvary Women's Shelter, in Washington, DC.

Our long-time friend and great supporter since the beginning, Ms. Maria Foscarnis, director of the National Law Center on Homelessness and Poverty, based here in Washington, DC.

Thank you again.

And, of course, also a long-time worker and toiler in this field, Lt. Col. Eugene Slusher, the director of the National Public Affairs Office of The Salvation Army; accompanied by Mr. Kevin W. Hooper, the divisional social services secretary of the Eastern Pennsylvania Division of the Salvation Army, based in Philadelphia, Pennsylvania, on behalf of the FEMA Emergency Food and Shelter Board.

So with that, unless some member has a time problem or constraint, and there is no objection, we will recognize you in the order I introduced you and begin with Dr. Culhane.

STATEMENT OF DENNIS P. CULHANE, ASSISTANT PROFESSOR OF PSYCHIATRY, SENIOR FELLOW, LEONARD DAVIS INSTITUTE FOR HEALTH ECONOMICS, UNIVERSITY OF PENNSYLVANIA, PHILADELPHIA, PA

Mr. CULHANE. Thank you, Mr. Chairman.

Mr. Chairman and members of the subcommittee, in my testimony today I shall briefly review previous estimates of the size of the homeless problem in the United States, present some new evidence on the scope of the problem, and discuss some of the implications of this research for future policy, including the proposed reorganization of the McKinney Act Programs.

In 1982, advocates for the homeless claimed that 2 million Americans were homeless, or 1 percent of the Nation's population. It is important to note that the advocates' estimate was not based on a scientific method, but that it nonetheless became a widely cited figure on the magnitude of the homelessness problem.

In contrast, the Department of Housing and Urban Development conducted its own survey of local officials in 1983 and estimated that only 250,000 people or 0.1 percent of the population was homeless at any given time. The HUD methodology was widely criticized, including in hearings before this subcommittee. Nevertheless, HUD's 0.1 percent estimate and the advocates' 1 percent estimate set the parameters for the so-called numbers debate that ensued.

A number of local surveys by social scientists have since been conducted that have used more reliable enumeration methods and that have sought to count homeless people in shelters, parks, subway stations, and a range of other public spaces.

These studies have consistently found that between 0.2 and 0.4 percent of the respective populations are homeless on any given night—more than double HUD's original estimate. The exception is a recent study of the District of Columbia's metropolitan area that found 1 percent of its population over the age of 12 homeless on one night in 1993.

At least some of the differences between these findings and HUD's original estimate are likely a result of their having been conducted several years later when the homelessness problem was believed to have increased.

Researchers from the Urban Institute conducted a national study in 1987 that estimated that between 567,000 and 600,000 people were homeless on any given night, or 0.25 percent of the Nation's population. This estimate was more than double the HUD estimate in 1983, and reflected both the improved methods of enumeration

and estimation, and again, an increase in homelessness over this period.

I would note that the 600,000 estimate was accepted by Federal officials in the Bush administration for planning purposes, although it was considered an overestimate at the time.

Finally, the U.S. Census Bureau conducted the most extensive enumeration ever undertaken of the homeless on S night in 1990, finding that 230,000 people were homeless in the Nation's 200 largest cities. Evaluations of the bureau's effort revealed that many street homeless were missed in the count, but it nonetheless produced the Nation's most comprehensive enumeration to date, and the findings were consistent with HUD's original estimate in 1993.

The limitations of this research I have just reviewed have not always been recognized, however. All of this research has been derived from cross-sectional surveys of the population. Such research provides a snapshot of the population or its size and characteristics at a given point in time, and as such is not intended for estimating the magnitude of the problem over time. This method also overrepresents people with long periods of homelessness, such as persons with mental health and substance abuse problems, and underestimates people with short periods of homelessness, such as those facing temporary housing emergencies.

To compensate for these limitations, last year several colleagues and I conducted a longitudinal study of the prevalence of homelessness in two large cities, Philadelphia and New York City, using administrative records. Both cities maintain central intake systems for public shelters, where clients are registered in a centrally maintained data base and through which their use of shelters is tracked over time. We used these cities' computerized records to document the unduplicated number of people who stayed in public shelters in both cities, unduplicating people by name, Social Security number, and birth date.

The results of our study were startling. We found that while both cities have single-point-in-time rates of homelessness similar to that nationally, between 0.2 and 0.4 percent, approximately 1 percent of both cities' populations stayed in shelters in 1992 alone.

Furthermore, we found that those numbers multiply over multiple years, to greater than 3 percent over 5 years in New York City and approaching 3 percent in Philadelphia over just 3 years.

I would refer to this chart here to my right, which indicates, as you can see, there is 1 day which is the 0.3 percent, and then it shows 1 year, 3 years, 5 years, and 5 years going out to 3.5 percent in New York City and close to 3 percent in Philadelphia over 3 years.

Previously, our understanding of the magnitude of the homelessness problem was based only on those 1-day counts. Now, with this larger frame of time, we can understand the larger number of people who have gone into the shelter system.

I have, by the way, provided an ethnic breakdown in the chart next to that.

Of course, the risk for homelessness is not spread evenly throughout the population. African-Americans are at least 10 times more likely to become homeless than whites in these two cities,

with 8 percent of New York City's African-American population having been homeless at least once in the last 5 years.

Children were also more likely to be homeless than the general population, with 8 percent of the African-American children in both cities having been homeless in the last several years, or 1 out of every 12.

If we were to include more recent data, we would find that nearly 1 out of every 10 African-American children have been homeless in these 2 cities since the late 1980's. Moreover, we found that between 14 and 17 percent of the poor population in these two cities had been homeless at some time during this period.

It is worth noting that while our study was based just on Philadelphia and New York City, there are converging sources of evidence that support the generalizability of our findings nationally.

First, there are other cities and States that now have computerized tracking data bases. Martha Burt of the Urban Institute recently completed an analysis of data from seven additional jurisdictions, including Columbus, Ohio; St. Paul, Minnesota; Los Angeles, California; the State of New Hampshire; the State of Rhode Island; Louisville, Kentucky; and the San Francisco Bay area.

She has calculated unduplicated annual rates of shelter use for these areas, finding the Philadelphia and New York City 1 percent annual rates to be midrange between a low of 0.3 percent for the State of New Hampshire and a high of 2.12 percent in St. Paul. In fact, the only two population adjusted rates among these jurisdictions that fall below 0.75 percent annually are the States of Rhode Island and New Hampshire, undoubtedly because they include the entire State population base as the reference point. They do not just look at the urban areas.

A second source of confirming evidence comes from the telephone surveys of the general population in Buffalo, New York; Tulsa, Oklahoma; and one conducted on a national sample. These surveys have found that between 4 and 7 percent of the general population reports having been homeless before. Indeed, the national study by Bruce Link and colleagues, which asked people specifically about whether they had slept in a shelter or in public spaces, identified a 5-year homelessness rate of 3.2 percent, identical to our 5-year finding in New York City.

Link and colleagues used their national data to estimate that as many as 7 million people have been homeless in the last 5 years of the 1980's. An extrapolation of our findings for Philadelphia and New York City, that at least 10 times as many people have been homeless over 3 and 5 years than at a single point in time, applied to the 600,000 single-night figure previously accepted by the Bush administration, would similarly lead to a 6 million estimate over a 3- to 5-year period.

Thus, this new research demonstrates that turnover among the homeless population is significant. Given the known shelter capacity in these systems and the volume of people who use shelters in our study, most people who become homeless must stay in shelter for relatively brief periods of time. We calculate a 60-day average in Philadelphia and a 90-day average for families in New York City.

Indeed, more than 90 percent of the people we identified as using public shelters are no longer in those systems, suggesting that previous assumptions about homelessness as primarily a chronic condition are far off the mark. Our preliminary analysis of shelter stay patterns data suggest that in Philadelphia, fewer than 15 percent of shelter users annually will stay in shelter for more than 6 months and that more than half will stay in shelter for less than 45 days.

This analysis would suggest that there are at least two major subgroups among the homeless: The smaller, more visible group; that is, long-term homeless; and a larger, probably less visible population of persons experiencing temporary housing emergencies.

Future research on the characteristics of these two groups is needed. Nevertheless, the existence of the two subgroups by length of stay would correspondingly suggest a two-pronged strategy to correct the problem.

Those persons with special needs who are homeless for long periods of time are quite evidently not being adequately served by the existing system of emergency shelter provision. More intense efforts to reach out to the street homeless, to stabilize long-term homeless people in transitional housing facilities, and to provide them with supported, permanent housing alternatives in the community are necessary if we are to reduce chronic homelessness. This is consistent with the continuum of care proposal outlined in the pending legislation.

Second, those persons who have temporary housing emergencies should not be forced to undergo the disruptions of family, work, and education that homelessness imposes before they are eligible to receive intervening support and services. For this group, both broad-based and finely targeted homelessness prevention strategies should be considered as they would better serve them and reduce their costly use of emergency shelters.

Homelessness prevention is, in my opinion, essential to any plan to reduce homelessness and will require collaboration at many levels of government. At the broadest level, homelessness prevention requires increasing the residential security of poor households through more comprehensive income maintenance protections and through the expansion of affordable housing opportunities.

A sufficient strategy for the prevention of homelessness among vulnerable adults should also require equal protection for persons with mental health and substance abuse disorders in health care reform.

Given the significant expansion of resources proposed in the pending legislation, I would also like to note that the data systems which were used for our study in Philadelphia and New York City deserve closer examination for their potential application to program monitoring and evaluation. Such data systems would allow local managers to follow changes in the utilization of services over time and could be modified to track a wider range of services embedded in the continuum of care and to standardize performance indicators.

In conclusion, I do want to show you a couple of things we have been doing recently with the research. Because these data systems register people's addresses before they come into the system, we

can take those addresses and map them out. And I have here just to show you, this is a map of Philadelphia. Each of those blue dots represents a house where a person formerly lived who was homeless.

As you can see, they are quite concentrated in three sections of Philadelphia, this area in north Phillie, and west Philadelphia and southwest Philadelphia.

There is a plotter pen that prints a dot on the paper each time it finds an address that matches, and it put a hole in three places in this paper because there are so many occurrences there.

One of those is in an area where there are three housing projects that border it. Another is a shelter. So, obviously, when we do this in the future, we will take out the shelter address. A lot of people reported the shelter as their last address. And the last is Holmesburg Prison, because so many people are going from the prison into the shelter system.

One of the things we also did, we took one of those census tracts and blew it up. I know you can't see it very clearly from there, but this is just one census tract in Philadelphia. It shows I think the extent of the problem. There is scarcely a block that doesn't have a house on it where someone has become homeless. In fact, most of the blocks have multiple cases of homelessness.

So I think it also dramatizes the fact that the homelessness problem is rooted in problems in neighborhoods. Although in Philadelphia some public officials have tended to identify the problem as a center city problem because of the concerns on panhandling and begging, when you look at these sort of data, it points to homelessness being a neighborhood problem, and that it is a problem that many of the poor neighborhoods are struggling with for members of their families and households.

I would answer any questions at this time.

[The prepared statement of Mr. Culhane can be found in the appendix.]

Chairman GONZALEZ. Thank you very much. We appreciate it.
Ms. Martin.

STATEMENT OF MARSHA A. MARTIN, EXECUTIVE DIRECTOR, INTERAGENCY COUNCIL ON THE HOMELESS, WASHINGTON, DC

Ms. MARTIN. Mr. Chairman and members of the subcommittee, I am pleased to appear before you today to discuss the administration's recent legislative initiatives concerning the homeless assistance programs under the Stewart B. McKinney Act.

First, however, I wanted to again express my appreciation to you, Mr. Gonzalez, and members of the subcommittee, for your commitment to addressing the crisis of homelessness in America and your continued support of interagency cooperation and coordination in administering Federal programs for the homeless. The excellent report of the Speaker's Task Force on Homelessness that was chaired by Congressman Vento of this subcommittee is further evidence of your leadership on this issue.

You asked that I address the Clinton administration's plan to consolidate various homeless assistance programs. In doing so, I will also share with you information received by the Interagency

Council on the Homeless staff during the past 10 months as it relates to the proposed reorganization of homeless assistance.

As you know, I have served as executive director of the Interagency Council for a year now, working with the 17-member agency under the leadership of HUD Secretary Henry Cisneros. Over the past year, the staff of HUD and the Interagency Council on the Homeless have worked with the other member agencies of the council to obtain recommendations from thousands of representatives of States, cities, nonprofit organizations serving homeless families and individuals, as well as over 400 homeless people themselves, as part of our effort to fulfill the mandate of President Bill Clinton's May 19, 1993 Executive Order.

That order, Executive Order No. 12848, directed the member agencies of the interagency council to develop a Federal plan to address homelessness. This soon-to-be-released plan, entitled "Priority: Home, the Federal Plan to Break the Cycle of Homelessness," reflects unprecedented consultation and collaboration on various issues and concerns pertaining to homelessness in America. It also makes recommendations for consolidating and streamlining programs as part of a single, coordinated Federal strategy which includes both short-term and long-term measures.

The administration's proposals that we are discussing today are rooted in our recognition of the need to take more concrete steps in responding to the crisis of homelessness.

It is important to recognize that homelessness today is a culmination of many factors: Shifts in the economy and lasting unemployment; the lack of affordable housing; increased drug abuse; and other physical and mental health problems of those who are most vulnerable in our American society and policies that have either ignored or misdiagnosed the impact of these realities.

Adding to the impact of these causes are changing family structures and a breakdown in social institutions. From this new understanding, two broad classes of problems which contribute to homelessness emerge—crisis poverty and chronic disability. Crisis poverty refers to the stubborn demands of ongoing poverty made untenable by some unforeseen development. Chronic disability refers to one or more chronic disabling conditions which impact on the ability to remain stably housed.

Against this backdrop, our approach must be reflected in policies that address the needs of both crisis poverty and chronic disability. The current approach on the Federal level has been effective in responding to emergency needs only. However, we now need a program to address the structural causes and reduce the barriers to mainstream programs.

The proposed McKinney amendments propose to restructure the relationship between Federal, State, and local governments and the nonprofit provider community in an effort to focus Federal and local energies on the underlying causes of homelessness in order to make a real difference.

It is important to note that the number one recommendation made by those attending 1 of the 17 HUD-Interagency Council sponsored interactive forums or responding to our mail survey was to consolidate the 20 programs where appropriate and improve program coordination.

In short, people told us they wanted a one-stop shop for Federal emergency assistance and transitional housing dollars. Under the current McKinney Program structure, Federal funds for homeless assistance do not provide localities and providers the flexibility they need to create a comprehensive system that truly addresses the many dimensions of the problems and needs associated with homelessness in a coordinated fashion.

This administration's homeless proposals are included in the President's fiscal year 1995 budget, which includes all homeless consolidation measures. Much of this work falls to HUD, which in fiscal year 1994 administers 68 percent of the total McKinney funds and six separate programs.

The details of this legislative proposal are included in the Housing Choice and Community Investment Act of 1994 announced on April 20 by HUD Secretary Cisneros. This proposal would make HUD a full partner with local communities in their efforts to reduce homelessness.

On April 14, HUD Assistant Secretary Andrew Cuomo appeared before you to discuss the specific proposals in the act that are related to homelessness, as well as other community and economic development initiatives. As he stated, this approach would be the first step away from a separate homeless system and toward mainstream approaches focusing on affordable housing and social services.

The proposed HUD reorganization would consolidate HUD's McKinney Programs into a single homeless assistance grant program, with an assurance that at least 51 percent of the funds would go to eligible nonprofit organizations. Funding would be available for all existing eligible activities under the current McKinney Programs, and would allow communities to design real solutions rather than programs designed to fit Federal categories based on funding availability.

It proposes to ensure participation by all relevant parties. The goal of the reorganization is to ensure that communities across the Nation have the resources necessary to establish a seamless system of services which includes, in addition to rehabilitative services, emergency, transitional, and permanent housing.

This approach has the support of many knowledgeable providers because their experience and unique perspective were vital to its development. For example, Marty Fleetwood, executive director of HomeBase, a nationally recognized social service public interest group representing providers and advocacy organizations, has endorsed this approach.

Specifically, she has stressed that the reorganization of the Federal emergency and housing funds provided through the McKinney Act Programs would facilitate the development of a continuum of care and allow a locality to plan and develop a seamless system of services based on a local assessment of need. No more will Washington approve an application for HUD funds without evidence of a local community planning process which includes all relevant parties.

It is also important to note that HUD has reflected in its proposal the need to link plans with other Federal programs affecting homeless families and individuals.

The President's fiscal year 1995 budget also includes consolidation proposals involving other agencies. For example, the Department of Health and Human Services is proposing to consolidate three existing programs in the Center for Mental Health Services, including the ACCESS Program. The three HHS Programs targeted at homeless youth would be consolidated into one comprehensive runaway and homeless youth program.

The Department of Labor proposes to redirect its homeless funding through the mainstream Job Training Partnership Act Program, which has been modified to focus more funding on disadvantaged groups, including the homeless population.

The Emergency Food and Shelter Program would be transferred from the Federal Emergency Management Agency to HUD, consistent with the overall administration objective of program consolidation and coordination.

These intra-agency consolidation proposals and the proposed interagency consolidation between HUD and FEMA will combine to improve Federal program coordination and facilitate more effective local homeless service system development.

In summary, the homeless initiatives included in the HUD legislative proposals involve reorganizing Title IV of the McKinney Act—the title covering HUD's programs—to enable localities to shape a comprehensive, flexible, coordinated system of homeless assistance, called a continuum of care. Under this new approach, housing and necessary services would be provided for each stage of homelessness, from emergency shelter to permanent housing, in a framework that can be more easily tailored to address local needs and priorities.

In closing, I would like to stress the importance of this proposed reorganization of McKinney and its real potential to break the cycle of homelessness. The leadership displayed by the agencies, in particular Secretary Cisneros and Assistant Secretary Cuomo, have played a very important role in making this agenda item a top priority for this administration.

The support of your subcommittee and your colleagues would send a message to the Nation that the time has come to reinvent the approach and to ensure opportunities to move from homelessness to self-sufficiency and community living.

Thank you for inviting me. I would be happy to answer any questions you might have.

[The prepared statement of Ms. Martin can be found in the appendix.]

Chairman GONZALEZ. Ms. Roman.

STATEMENT OF NAN P. ROMAN, VICE PRESIDENT, NATIONAL ALLIANCE TO END HOMELESSNESS, WASHINGTON, DC; ACCOMPANIED BY CASSAUNDR A DIREKSTON, CALVARY WOMEN'S SHELTER, WASHINGTON, DC

Ms. ROMAN. Thank you very much.

President Karnas from the National Coalition for the Homeless asked me to mention to you and members of the subcommittee he very much regrets he couldn't be here today and they will be submitting written testimony. He is anxious to work with you to ensure the best possible Federal response to the issue.

My name is Nan Roman. I am vice president of the National Alliance to End Homelessness. The Alliance is a national membership organization. We have about 1,750 dues-paying nonprofit members from every State of the Union. These are the organizations that are on the frontlines of this issue.

We are certainly honored to be speaking before you today, because, of course, this subcommittee is the congressional leadership on the issue of homelessness. The Alliance has honored both the chairman and Mr. Vento with its Public Sector Award in previous years, and tomorrow evening we will be honoring Mr. Barney Frank, a former member of this subcommittee. And we are very grateful for your commitment and work on this issue.

I would like to speak briefly about the challenges we face in deciding whether or not to reorganize the McKinney Programs. I would then like to comment on HUD's proposed reorganization and some possible alternatives to that reorganization. I will then discuss possible changes to the categorical programs. Finally, I will discuss the FEMA Program.

There are many challenges and conflicting needs that face us, I think, in reorganizing the limited resources we have in the HUD McKinney Programs. These tradeoffs include local control versus Federal leadership; the efficiency and experience of existing nonprofit organizations versus the desire to involve new nonprofit groups in providing assistance; the desperate need for emergency assistance versus the need for permanent housing; a question of whether to use limited HUD resources on housing versus using them on services; and the needs of rural areas versus the needs of urban areas.

As we look at any reorganization of the HUD programs, I think there are going to be tradeoffs in these areas. We are not going to be able to get everything, as we haven't been able to get everything with the categorical programs. The Alliance would like to offer its assistance to the subcommittee in deciding how to balance these tradeoffs to come up with the best solution.

I understand that you have not had the legislation on reorganization of the HUD McKinney Programs for much longer than we have. We haven't had time to run it by our members. So I am going to tell you what we think of it, and what we have heard so far from our members.

In the past I will say that the members of the Alliance have opposed consolidation of the McKinney Programs. Their primary concern has been that it would put too much control for these resources in the hands of local governments. It is not that the solution to homelessness is not local. It is that it may not lie with local governments. Local governments have not always been a friend to homeless people.

And the issue, moreover, is highly politicized at the local level in terms of populations to help and so forth. Federal competitive programs, while they are certainly far from perfect, at least have the pretense of being based on merits of need and performance. However, certainly the Federal competitive programs have fallen short. And this has been in two areas.

Those areas are local coordination—the ability of localities to plan assistance—and the ability of localities to develop comprehen-

sive systems of assistance, what the administration calls a continuum of care.

HUD is correct in its assessment of the shortcomings of the categorical programs. In response to these problems, HUD has developed a proposal that is ambitious, it is comprehensive, and it has many excellent elements. We are deeply grateful to Secretary Cisneros for his leadership on this issue, and we have actively worked with Assistant Secretary Cuomo on the proposal. Given this cooperative relationship, I think the plan they have presented to you is a good start if you decide you want to go with a formula-based approach.

I believe our members, when we can survey them more carefully, will be attracted to many elements of this proposal; in particular, the parts that require local planning, that mandate a continuum of care, and that provide consistency of funding.

I know they are deeply appreciative of the level of funding that the Department has requested.

There are several key parts of HUD's proposal that I think we need to look at very carefully. The first is the formula.

The proposal proposes the emergency shelter grant formula. We have nothing in particular against emergency shelter grant formula, but we are not sure how it is going to play out with regard to the numbers. We would like to see how that is going to work. Our concern would be that it spreads the resources too thin to do any housing and provide the emergency and transitional housing that is required. In addition, there are two important areas that must be funded that are a bit short-changed in the legislation.

One, as Dr. Culhane has pointed out so well, I think, is prevention. And the second is followup services to people after they exit from the system.

Also, in regard to the formula, we are concerned about the trigger, the floor below which they will not implement the formula but under which they will revert to the competitive system. We would like to see how the numbers play out at that level, which would be \$510 million.

The issue of homelessness is highly politicized at the local level. Localities often have to serve those populations that are easier to serve, although the problem may lie with some populations that are a little more difficult to serve. We would like to ensure that there would be some link between the identified needs and the allocation of resources at the local level.

The local planning board that is proposed in the reorganization proposal is essential to its success. I would say for us it is probably the primary concern.

This is the protection that addresses the politicization at the local level and brings in people that are knowledgeable about this problem at the local level. We will have some recommendations on other members of it, but I think that it is an excellent proposal.

Another concern of ours would be cities that choose not to participate. There are certain disincentives in the proposal to localities participating in it, such as the match requirement and the maintenance of effort requirements.

HUD has been scrupulous in devising a series of options that can occur if the city doesn't participate. We are concerned about the

timing of those options, how long they would take, so that there is no interruption in service. Of course, interruption in service is a critical issue when dealing with homeless people.

And finally, we are very supportive of the section 8 vouchers. We think it is going to be a challenge to figure out how to use them equitably and not drop people into the homeless system. Nevertheless, this permanent housing component is critical to having a good homeless system.

We would just like to suggest a couple of options that you might also look at that would be permutations on the proposal that has been made. One came out of the conference report on the 1990 Housing Act. This was a formula grant program that holds out the SRO Program as a competitive program.

We would further suggest the possibilities of holding out the Shelter Plus Care Program also with certain changes that solidify its nature as a permanent housing versus a Transitional Housing Program.

What this would result in would be a block grant for prevention, emergency and transitional housing. The formula allocation could then be reduced as the need was reduced, but it would be clear that the permanent housing resources should come from CDBG, HOME, section 8, and the SRO, and Shelter Plus Care Programs.

This also addresses the particular concern of the Alliance that we not lose the Federal leadership on SRO housing, which is a key element, we think, in the solution to homelessness.

Another possibility we might suggest is to move more slowly into some kind of formula allocation. The proposal that you have from HUD is a very ambitious proposal, as I have said. It requires extensive local planning and coordination. It requires changes in HUD field staff's relationship to grantees, nonprofits, and local governments. It requires possible changes in the mechanism for delivering services and housing at the local level.

It is going to take time to make these changes. We can see that here in DC, in the DC Initiative, and in the other cities that HUD is working in.

We are concerned that we may not have the time to implement these changes properly, according to the schedule that HUD has, and we are suggesting that you might want to look at doing the planning in fiscal year 1995 and implementing the formula allocation in fiscal year 1996. This would give us a year to get the infrastructure into place.

So these are some possibilities you might additionally look at in terms of formula granting the programs.

As to the categorical programs, Mr. Chairman, I have attached a list of recommendations that Alliance members made on the specific categorical programs that would make them more uniform and easier to use. These changes, which I won't go into, would be relevant both if these programs are eligible activities of the formula program or if they are stand-alone categorical programs. And we have also attached our recommendations on possible authorization levels for these different options.

Finally, on the matter of the Emergency Food and Shelter Program that the administration proposes to move from FEMA to HUD, we see no compelling reason to make this change. FEMA's

record in disbursing these funds is exemplary. HUD can only dream about a program that has 100 percent outlay in the initial year, every year.

We see no attempt at the purported coordination that is proposed by the administration since they are saying they will run the program exactly the same as it was run in the past. And so if it isn't broken, we don't really understand why it needs to be fixed.

Mr. Chairman and members, we are very grateful for this opportunity to speak with you. I would like now to just briefly introduce Cassaundra Direkston. She is a person who lives here in DC at the Calvary Women's Shelter and is very experienced with these programs because she has participated in them. She has a few remarks she would like to make.

[The prepared statement of Ms. Roman can be found in the appendix.]

Ms. DIREKSTON. Good morning, Mr. Chairman, members of the subcommittee. My name is Cassaundra Direkston. I am presently a resident of Calvary Women's Shelter. I understand that we are addressing the need for transitional and permanent housing. I am here to allow you to see in person that I no longer need to be in emergency shelter. I am awaiting affordable permanent housing. I am taking up a very much-needed space by women who are presently sleeping on the street.

I work, I don't have the need. That is the bottom line. I would like to have this space freed up for someone else. And in order for that to happen, we need to have permanent housing, especially affordable.

That is all. Thank you.

Chairman GONZALEZ. Thank you very much, Ms. Direkston. Ms. Foscarinis.

STATEMENT OF MARIA FOSCARINIS, DIRECTOR, NATIONAL LAW CENTER ON HOMELESSNESS AND POVERTY, WASHINGTON, DC

Ms. FOSCARINIS. Thank you, Mr. Chairman.

I am Maria Foscarinis, the director of the National Law Center on Homelessness and Poverty. We are a private, nonprofit legal advocacy group on behalf of homeless and poor Americans.

Mr. Chairman, I appreciate the opportunity to testify before you and members of the subcommittee. We appreciate the leadership that you and members of the subcommittee have shown on this issue.

The Housing Reauthorization bill provides an opportunity to address the needs of homeless Americans. The administration has been slow in getting the proposed legislation to us, and, I understand, to the subcommittee. We are unable to comment on the details of the proposed legislation beyond the proposals for reorganizing the McKinney Act, which we just received last Friday.

Nonetheless, I do believe that the proposed legislation is a significant opportunity to improve Federal efforts to address the needs of homeless Americans. I believe it comes at a time when we are very clear on the direction we need to move in. I, specifically, want to point out that the Speaker's task force report, which is a very important, excellent document, which I know Representative Vento

as Chair has worked very diligently on, has identified needs and made recommendations.

The task force report can serve as a benchmark against which HUD's proposed legislation may be measured.

On the McKinney reorganization, consolidation of the programs, the National Law Center is not opposed to consolidating the McKinney Act Programs. As a matter of principle, I believe that the programs can be made more efficient and can be operated more effectively. But while we believe that reorganization can occur, it must be consistent with certain principles and mean certain criteria.

In addition, we believe that the proposed increase in McKinney Act funds in the administration's legislation is a positive step, but must be used to provide for permanent solutions to homelessness rather than merely emergency relief.

I want to point out again that the McKinney Act was intended merely as a first emergency step. It was not intended to be the only step in addressing homelessness. Any proposed increase should go toward permanent solutions on the programs that HUD is proposing to increase for permanent housing.

Some specific points on the proposed reorganization. Our initial assessment: I am going to go through a list of criteria we identify as being important, and our comment on the administration's proposal measure against those criteria.

One is enforceability. There is a history of uneven implementation at Federal, State, and local level of the McKinney Act. We believe it needs to be very clear that all of the provisions in the statute are enforceable and enforceable by a private right of action.

On the roles of homeless persons and nonprofits in the planning process, the administration's proposals are guaranteed seats on the local board, a very important step forward; guaranteed seats for homeless persons and service providers. We believe there should be a clear statutory directive to local governments to work with such boards. This could be extremely important to ensure that the local boards have authority and that in fact they are able to participate in a meaningful and constructive way.

In addition, and we have not seen the proposal on the consolidation of all of the HUD programs, but Congress should ensure the McKinney Act board has a role in developing the comprehensive planning documents as well.

Third, hard-to-serve populations must be included as well as easier-to-serve populations. One way that Congress can ensure that this happens is by making sure that the assessment of need is in fact accurate and inclusive of the entire homeless population.

Fourth, there must be a mechanism for advocates of homeless persons to challenge the localities plan. This is referred to in the administrative proposals but no specific procedures are outlined. There should at least be basic elements of such a process defined by Congress.

In addition, there should be timelines required by Congress in each of the areas where the Secretary has been granted or is proposed to be granted discretion to develop procedures or promulgate regulations.

Sixth, discrimination against homeless persons. It should be specifically stated in legislation that localities that receive Federal funds should not be permitted to enforce laws or practice policies directed against homeless persons. This is an especially important issue, it is a growing problem nationally, and this is an opportunity for the Federal Government to step in and protect homeless people from such actions.

On the administration's proposal to move the FEMA Program to HUD, this transfer, this proposed transfer seems likely to cause needless complication without any significant improvement. There may be ways in which the FEMA Program could be improved, such as increasing accountability or including a broader representation of nonprofits on local boards. However, simply transferring FEMA to HUD seems to make little sense.

Most fundamentally, the McKinney Programs are not enough. In order to end homelessness, we must go beyond the McKinney Act to address the underlying causes of homelessness. The recommendations in the report in the Speaker's Task Force on Homelessness are an important step toward addressing these causes.

Among the recommendations that fall under the housing committee's jurisdiction are: Increase funding of Section 8 Programs; allow the use of FHA multifamily mortgage insurance for SRO buildings; reinstate the 30-day right of first refusal for homeless organizations; and establish a similar program covering additional Federal properties.

In addition, there are other steps consistent with the task force report that this subcommittee could take to prevent homelessness from occurring to begin with. These recommendations include increasing funding to provide for mediation to resolve landlord-tenant disputes before homelessness occurs; creating a mortgage assistance fund to assist homeowners at risk of homelessness due to loss of employment, illness or other emergency; establish a refundable tax credit for taxpayers who pay more than 30 percent of their income; require public housing authorities to comply with their obligation to lower rents upon the tenants' loss of income; require public housing authorities to notify tenants of emergency rental assistance; and use HUD's proposed consolidated planning document to encourage localities and States to provide incentives for private development of new affordable housing.

Finally, there are opportunities to provide assistance for persons who are currently homeless, including public sector job creation and including setting up a housing opportunity hotline to provide information on Federally held properties available for sale or lease.

Finally, civil rights protection. There is an opportunity to address this issue on the funding of not just the McKinney Act but Community Development Block Grant funding as well.

Mr. Chairman, I would like to conclude. I notice that my time is up. As always, we stand ready to work with you and the members of the subcommittee, and we thank you for inviting our testimony.

[The prepared statement of Ms. Foscarinis can be found in the appendix.]

Chairman GONZALEZ. Thank you very much. In fact, you were well within your time, and it was very succinctly presented.

Colonel Slusher.

**STATEMENT OF LT. COL. EUGENE SLUSHER, DIRECTOR,
NATIONAL PUBLIC AFFAIRS OFFICE, THE SALVATION ARMY**

Colonel SLUSHER. Thank you. Good morning. I am Lt. Col. Eugene Slusher. I am currently national resource development and disaster services secretary for The Salvation Army. I, too, appreciate the opportunity of testifying before the Subcommittee on Housing and Community Development this morning.

Last week I attended a subcommittee briefing related to the feeding of the hungry in other parts of the world. We listened to the reports being shared by organizations that are actively engaged in aiding the displaced, the homeless and the hurting individuals in other countries.

I serve as one of the seven national emergency food and shelter board members, and monthly at our meetings, we review similar problems that exist right in our own country.

In the 12 phases of this program, we have noticed the manner in which this funding is used to meet the needs on the grassroots level across our land.

The Salvation Army is privileged in the fact that in the more than 10,000 centers that we have across the country, we are operating programs that benefit from this particular program.

Our motivation as one of the organizations that receive funding from the Emergency Food and Shelter Program is to continue to network with everyone in the community to help alleviate the needs that arise. On behalf of the millions of individuals who have been served in these years since the program commenced, we wish to thank you and the members of this subcommittee, who have been instrumental in the furtherance of this wonderful program.

These much-needed funds help many organizations to provide the transitional housing and other sheltering programs that make it possible for the unemployed to have a roof over their heads and food on their table. The challenge continues for the McKinney Act in this funding to be available to the homeless and the unemployed in every community.

The concern that we represent today is to once again report the success of this program and urge that it be allowed to continue in the same style that is so effective. This is one of the most successful programs the U.S. Government has established. Because of the uniqueness of the mechanism of utilizing a partnership between FEMA, national agencies, and the Secretary of the United Way of America, response is quick to meet many of the needs in these local communities. Over 10,500 local agencies, both nonprofit and governmental, are providing direct services to the homeless and hungry throughout our Nation.

A couple of weeks ago I had the privilege to attend one of the training sessions for new local recipient agencies. And at these sessions, instruction was provided for the total program and the manner in which it operates.

Some of those that I spoke with were from rural communities in nearby States, and they were excited because with the unemployment rate in their community, they actually had the wherewithal to help these people. The expression of appreciation spoke volumes. That was evident on their faces.

These training sessions are conducted at many locations to allow for the continuance of the guidelines to be maintained in the program that unites local, State, and Federal bodies. The value of promoting self-esteem to those who have lost much because of the lack of employment and other circumstances cannot be measured. Yet, this is one of the side effects for good that is associated with this program. Because this is a networking program, many other wonderful side effects are realized.

Many cross-culture groups work together in order to serve those with language problems. Yet, they are aided with the material support that they need.

Many long-lasting community projects no longer associated with this program have developed, and they are now operating as follow-up resources for those that are still in need—no longer in need of these funds but still in need of help.

Helping to establish the public/private coalitions and partnerships in the communities reach far beyond Emergency Food and Shelter Programs. Yet, through the years these programs served as the catalyst for such activities.

Because the homeless population has a wealth of gifted individuals who face crisis situations with the support that they receive from the agencies that provide emergency food and shelter services, when they return to gainful employment, they become productive citizens, and block grants are not available for such individuals and other programs that provide assistance.

The success stories are many and could fill volumes of books because of the program and the track record that is maintained. So I repeat, we hope this wonderful program can remain intact.

If it is shifted from FEMA, I would heartily recommend that it goes with all of the ingredients; the maintaining of the national board structure and the administration of the Secretary of the United Way of America.

For this network alone has been part of the overall success of the operation. Individuals who know the country, they maintain the necessary insight to the trends and developments with the poverty and unemployment level. When the funding is available within a matter of 60 days, the funds are in the hands of local resources, but in one of the graphics that you have, you will find that 33 days after the President signed the last bill, the first checks were mailed out.

Development of any new process for delivery would hinder and cause the program to not reach its intended purpose. And I join my fellow witnesses here, since the program is not broken, why should we attempt to fix it?

It is interesting to note that the present phase 12 is serving over 25 million meals in shelters; over 83 million meals will be provided through food pan factories and other food providing sources; nearly 4 million night's lodgings will be possible, as well as nearly 290 million rent and mortgage payments made to keep people from being evicted. Over 201,000 utility payments will be possible. And we could continue with such reports.

Because it has been said that 60 percent of the homeless are children, you can see our concern that this program doesn't suffer a

breakdown in the system that has aided so many young people in the years of operation.

When I mentioned earlier that the side effects of the program result in many different things, we have job training as a result of some of the adjunct activities associated with this. Because we are on the grassroots level and shelters are often operated by small groups, this is a way in which the networking can continue to work with other groups.

But some of the regulations associated with HUD do not open the doors for these same outlets that are offered by the EF&S Program. This past winter was among the most severe in recent times. But yet, again, if you look at the graphics, you will find that the checks were received by the groups during the winter months.

Of the many homeless programs that exist within the McKinney Act, as well as outside the scope of service, this program is one that really functions to meet all types of needs that face the community.

Again, I refer to the structure of the movement. We should not forget that success, again, relies on the bringing together of people at the local level. Local government officials, nonprofit providers, community leaders, homeless advocates, the homeless, and formerly homeless are able to work together in this operation.

Thus, the community has no reason for not having success and improving because of the ability to be associated with such a unique governmental community operation. The Emergency Food and Shelter Program gets its funding annually to the streets in the winter months, as I have indicated. The spending is completed within the 1-year timeframe, and more than 95 percent of these funds are handled by nonprofit service providers.

This program was created by Congress and has reached the full purpose for which Congress had intended. The movement of this program should only be done following extensive consultation with the national board and the local boards, and hopefully this consultation should take place before any move of this program takes place.

Optimistically, those responsible for such a move would not allow this to happen without such consideration. You can be proud of this program, which was created by many of you who serve on this subcommittee. You should know that a vibrant coalition exists as a result of this positive activity that needs to continue serving those in need in our country.

We need to remind you again this is not an anti-HUD position, to keep this program based in the FEMA family. We are encouraged by some of the directions being taken by HUD. Rather, we are concerned that with such a move, it would be felt that the program needed to be changed. And I repeat, this is among the most successful, people-serving programs available today, and we do not want to see that those we serve are left without this great resource.

HUD seems to be moving in a great direction. But we feel that we are one of the groups that they do not need to move with. We are just anxious to remind this subcommittee and others that because of the local emergency food and shelter boards and local recipient agencies, they have demonstrated their compassionate zeal and responsibility during these past years, and we do not want to see this end.

Also, the people working with this program have taken its concepts and combined them with local commitment, with an accountability level that has produced magnificent partnerships. This is vital to the success of any ongoing program.

The members of the national board all represent the national agencies who are busily engaged daily in meeting other aspects of individuals' needs. And serving on the national board enhances our abilities to meet these challenges.

In the graphics which are also attached to my remarks, you will see the manner in which such funding has been provided. You will be enlightened as to the full extent of previous phases of this valuable people-oriented resource, where the pockets of unemployment have developed. The Emergency Food and Shelter Program, established by you, has worked and is still prevailing.

Do not lessen in any way this program. Be assured that each of us associated with this program welcome any new approaches. Again, we say, not from any emotional link to FEMA but because of the successful manner in which they have directed our ship thus far, allowing for dedicated decisionmaking, and because of the cadre of individuals in small communities and large cities who have received the effective and practical support.

Finally, if the program moves to HUD, and if it is not to be changed, why is it necessary to move it from its present berth in an organization that is known for providing good and needed emergency assistance to the public?

We on the national board assure you that we will continue to render our best service if such a move would take place, and assure that we are not attempting to balk in any way. We are just desirous of not disrupting this vital link for the local providers and desire to maintain the program while new areas of cooperation are explored.

We thank you again for allowing us this privilege of being here today and, as you review all the materials that are provided to you, we hope that you will be aware of the dynamic and efficient government resource that is still needed throughout our country.

[The prepared statement of Colonel Slusher can be found in the appendix.]

Chairman GONZALEZ. Thank you very much, Colonel.

Mr. Hooper.

STATEMENT OF KEVIN W. HOOPER, DIVISIONAL SOCIAL SERVICES SECRETARY, EASTERN PENNSYLVANIA DIVISION, THE SALVATION ARMY, PHILADELPHIA, PA, ON BEHALF OF THE FEMA EMERGENCY FOOD AND SHELTER BOARD

Mr. HOOPER. Good morning, I am Kevin Hooper, divisional social services secretary for The Salvation Army. Our divisional headquarters is located in the city of Philadelphia and has the responsibility for the management of Salvation Army services throughout eastern Pennsylvania and the State of Delaware.

I welcome this opportunity of testifying before the Subcommittee on Housing and Community Development today. I come before you to share our opinions and our concerns in regard to the proposed transfer and programmatic change of the Emergency Food and

Shelter Program as administered by FEMA to the Department of Housing and Urban Development.

As part of my responsibility with The Salvation Army I have had the opportunity to have been actively involved in the Emergency Food and Shelter Program as a board member serving at the local board in the State of Delaware and currently on the local board of the city of Philadelphia.

Additionally, I have been able to see first hand how effective this program has been in meeting the immediate needs of persons living on our streets and those families who find themselves at risk of losing their homes.

The Salvation Army in eastern Pennsylvania and Delaware currently receives Emergency Food and Shelter Program funding which is distributed in 30 communities, in rural and urban areas. Out of the 30 communities in which we are involved in the direct distribution of EFSP funding, 80 percent of these communities are in rural areas. Most of the communities in which these funds are distributed are in cities or towns of less than 60,000 residents.

I am sure that we all can agree rural poverty is not as noticeable as the poverty which has impacted American cities. Families and individuals become isolated in rural communities and do not have the opportunity to access a social services delivery system which operates more effectively within urban communities.

There are many roadblocks for the rural poor to obtain emergency social services which can help them stabilize, if only for a few months, the crisis confronting them.

The Emergency Food and Shelter Program in the communities in which we serve has become part of a system which would not be as effective if these funds were not available. In rural communities we need to take a broad view of the positive outcomes which have occurred since the inception of the Emergency Food and Shelter Program.

With the creation of local boards, community organizations, homeless advocates, community leaders, and concerned people have been able to identify the most effective network to have the best impact in addressing community problems.

The array of services which have evolved in partnership with local communities include food pan factories, distribution centers, mass feeding sites, along with provision of emergency shelter, rent and mortgage assistance, as well as utility payments.

The Emergency Food and Shelter Program has become much more than a housing program, and that is critical to keep in mind, since it has enabled organizations such as The Salvation Army to support families and help them maintain the ownership of their home, the rental of their apartment, the opportunity to provide for day-to-day necessities.

These services have prevented countless thousands of families and individuals from falling into the abyss of homelessness and hopelessness.

Local boards are only too ready to address their own community's problems. I believe an unexpected outcome of local boards has been the ability to provide administrative and management support to nonprofit organizations and other caring groups who might not have otherwise had such involvement in the community.

I have personally been involved in newly created coalitions and agency networks that didn't exist years ago in analyzing and discussing more effective approaches in dealing with poverty within our communities.

It has been encouraging to see the establishment within many of our rural communities of coalitions developing a continuum of services which address the crisis emergency needs of families and individuals as well as exploring long-term solutions.

We believe this is important for communities to have a sense of control and ownership of how programs and funding should be used to address their local needs.

I have witnessed the incredible inclusion of thousands of volunteers who have personally been involved in preparing and delivering meals to individuals who are in their homes. Many of these individuals are older and very frail. I have seen volunteers organized to package food for mass distribution to individuals throughout rural areas who could not obtain these types of services due to lack of public transportation.

The faith community has responded by making available their facilities as well as members of their congregations to be an active participant in meeting the needs within their communities.

I believe that over the past 11 years, the Emergency Food and Shelter Program has brought individuals into the process who were unaware of the severity of the poverty within their community. It has been able to educate and sensitize people to how important it is for us to care for our neighbors.

Over the past 5 years, The Salvation Army in eastern Pennsylvania and Delaware has distributed approximately \$3,300,000 in Emergency Food and Shelter Program funding. We believe that of every \$1 of EFSP funding, we are able to leverage \$4. As a result of the ability to leverage additional funding, we have in fact been able to distribute \$13.2 million of assistance over the past 5 years.

We believe this is the type of investment that the Federal Government must continue to make. We believe that government needs the support of strong public/private coalitions to create partnerships in addressing the issue of poverty, the real problem throughout this country.

I would like to discuss a few of the advantages of the current system as it is designed. The administration fee for distributing EFSP funds is less than 3 percent. The system provides for a fast-track distribution of funding well before traditional dollars can be obtained.

The system provides immediate cash-flow for smaller, nonprofit organizations or community agencies who need the immediate dollars in order to provide immediate services. Current EFSP funding supports service providers that focus on prevention. Funding for prevention services always seems to disappear through government agencies.

Local nonprofit organizations and agencies are able to quickly respond to unexpected social problems within their communities. Local boards from year to year have the flexibility to prioritize how EFSP funds should be utilized. Local boards are able to bring a different point of view which might not be understood by larger government bureaucracies if the system is to be changed.

I would like to express a few concerns which have been shared with me by my colleagues and agencies that I have spoken with throughout the 30 communities in which we provide services concerning the transfer of the Emergency Food and Shelter Programs in the Department of HUD.

Many of my associates feel there would be several drawbacks if the program was to be altered.

The merging of EFSP funds into the FEMA Program would leave out a number of agencies and programs that traditionally do not receive ESGP funding. Many agencies that operate seasonal support services may not qualify for ESGP funding, or would want to apply.

HUD is extremely familiar with transitional and permanent housing. However, they are not as familiar with emergency shelters and emergency support services such as food, rent, mortgage assistance, utility payments, and programs which provide congregate meals.

The effect of cutting or altering current services would be devastating to people that this program was intended to serve. The Salvation Army as well as many other organizations have been greatly served by HUD. But, unfortunately, the extensive eligibility requirements of HUD cannot be met by many chronically homeless men and women who we provide direct services to.

Transferring EFSP funding could seriously compromise the effectiveness of our unique and helpful services to people at risk. Changes are taking place all around us, throughout government as well as the social services community. We are in need of new approaches which ultimately create stronger partnerships.

I would say to you this morning that the programs and agencies which I represent are eager to meet with HUD and discuss new ideas and to gauge their impact on individuals to whom we provide support. But as we consider new opportunities and initiatives, it just doesn't seem to make much sense to redefine a program that has been able to rapidly deliver funds for services as well as to respect the local decisionmaking process.

We believe that this is one program that has been able to deliver funds into rural areas as well as big cities with very little bureaucracy, which has enabled the funds to be received quickly.

In closing, I would like to share with you what I believe is the collective opinion of the Voluntary Council for Emergency Assistance in Philadelphia as shared with me by Ernest Jones, the executive director of the Urban League of Philadelphia.

We believe that the Emergency Food and Shelter Program has some unique features. It delivers help quickly and effectively to countless persons in thousands of communities facing hunger and homelessness.

For 10 years, a coalition forged between Congress, the Federal Government, as represented by FEMA, and six highly credible and effective national nonprofit agencies, has set policy and managed a very flexible and responsible national program. The local decision-making which has been built into the fund distribution process has assured the greatest possible flexibility in providing money in each eligible jurisdiction to the most needed programs and beneficiaries.

To tamper with this program, a very effective partnership between public and private sectors would be at risk. This partnership is duplicated thousands of times over in local communities across this country, resulting in a very strong national network which is effective at both local and national levels. This network we believe could be at risk.

We implore your assistance and consideration in keeping the Emergency Food and Shelter Program intact and operating it in the effective manner which it has done for more than 10 years. We would ask you to make the best decision for the constituents who you represent.

I want to thank you for the time allowed to me this morning.

[The prepared statement of Mr. Hooper can be found in the appendix.]

Chairman GONZALEZ. On the contrary, we want to thank you, Mr. Hooper, for an excellent statement and observations. I have some questions I am going to ask, but I think in all fairness to all concerned, and to myself, I want to give just a very brief picture of where I come from and why I got involved.

In the first place, I am older than anybody, I am sure, in this room. I am a Depression kid. Here in DC, where very few go, in fact I don't know how many of my colleagues in the Congress go across the expressway where the people were moved from the southwest development apartments. You still have on M Street one of the better public housing projects, but the people moved out. In fact, that was a housing development that a former Member, before he got elected, developed. He was a developer, a former Member of the House, not of this subcommittee.

I recall vividly as if it were today the environment, the sights, the sound even, and there is no way it can be reproduced, so I will briefly say that poverty such as we speak of today cannot be compared.

As a very young lad, I recall my mother giving me a pint of milk. We were well off enough to be able to buy milk. And taking it across the creek, as we called it, over to the other side, to this shack, with a dirt floor, and one water fountain for about nine families. The shack was 1½ rooms, with a dirt floor, and it housed this family, who were second cousins. And they were victims of tuberculosis, which was rampant in my city. In fact, it was known as the tuberculosis capital of the country.

Also, the friends that I played with, some who went to school, elementary school, faced the same conditions. Then came the Depression. These scenes I pictured, taking this bottle of milk, were before 1929. But after 1929, particularly 1931, 1932, you began to see what I didn't see. And I came through that, and the war period, sworn to do everything I could as an individual to prevent my children, our grandchildren, our great grandchildren, from witnessing that. People were dying in America, and in San Antonio. They weren't just poor. They were dying.

The variety of goods we take for granted today were just totally unknown. There is no way you can evoke this. But anyway, I give you that because it shows the distress to myself, pledged as I was, as Jefferson said before he took an oath, to do everything in my power to see that my children didn't face that or war.

And you can imagine when 1950 came around, my distress, and in fact at that time I never dreamed of being in the Congress, or for that matter in politics in general. I saw the developments, and I could see them returning.

So finally in the 1960's, 1961, I had the opportunity to be elected, a great privilege, in a special election. I have been here 32½ years, and happily I was assigned to this subcommittee. In fact, among those sworn in with me, there were only two others since it was in mid-Congress, I was the only one assigned to a full or standing committee, as they called it then. You had a very different discipline then, than now. You were lucky if you got assigned to a full standing committee. And no one was assigned, no matter how much of a veteran, to more than one standing committee. Then you were allowed the privilege to belong to what they called a minor committee. But I was assigned to this subcommittee.

Politically, I was told that if I didn't get on the Armed Services Committee, given the nature of my district, with all these very historic and fundamental defense bases, that I wouldn't be able to serve well.

But I had the opportunity to serve in the State Senate for 5 years, so I knew better. That didn't frighten me. I didn't want to go on the Education and Labor Committee, because that is where I started in politics, local, the city council, the State Senate. The focus of my problems were education.

I had worked with the San Antonio Public Housing Authority between 1950 and 1953, and I had the great, great thrill of being the assistant director in charge of acquisition and family relocation.

I had the great pleasure of acquiring the site that is known in San Antonio as the Sierro Park area, which is also known as Death Triangle, because it had the highest incidence of death on account of infant diarrhea in the world. And that was no more than half a mile from the city.

I had the great privilege—and that is the reason I have such faith in our system, up to now—of seeing that replaced by one of the now existing housing projects that is still one of the gems. In other words, it has been maintained very well, and affords safe and decent housing.

I got elected to the city council in 1953, and I had a chance to address these other fundamental needs. After a tremendous fight I was able to change the system whereby families in those areas could get water without having to buy water in barrels of 40 and 50 cents a barrel, with wiggle worms in them.

So we won that fight. Everything was done including shooting at me, that could be done. I recite that only to show you my distress in 1981, when I began to see what I hadn't seen in the intervening years since the 1930's and the war. That was either fathers or mothers parked in cars, and this was down in the South, or mothers with children, and fathers who had parked their families and were running around the country looking for jobs.

That distressed me. Then Mr. Vento came into the Congress, and he reported the year after I became chairman of this subcommittee, the growing incidence of homelessness in St. Paul and his distress. We then had the first hearing that brought this into national attention on December 15, 1982.

The immediate problem at hand was the need to try to get GSA to work out the use of the old City College on Second Street as an emergency shelter. That became a struggle in itself.

But anyway, you can imagine my distress since then. Overall, though, as a member of this subcommittee, and as I tried to tell the folks then, who in 1961 thought there wouldn't be unending prosperity, it didn't matter if I don't get on the Armed Services Committee. If your currency isn't worth much, what kind of a defense can you have?

Well, to my horror it has come around to that. This is why you have these propositions today to combine, and bring in from FEMA to HUD.

We have been having the inspector general, ever since the inspector general's office was activated in 1984, and this subcommittee went to Milwaukee. The hearing there led to our having to refer to the Justice Department what turned out to be four indictments and four convictions of HUD officials and realtors.

The reason for that scandal, which later translated to Flint, Michigan, out of the Chicago regional office, was due to the same reason we are facing now; that is, the first thing that was mandated under the David Stockman decree, was a cutback of 15 percent across the board in HUD.

HUD is facing the same thing now with the Vice President's so-called reinventing, but actually it is the same thing, mandating. I never have believed in magic numbers. Mandating that at least 252,000 Federal employees shall be shorn from the payroll, and then translating that to each Department, and then giving the inspector general's report telling us that HUD is still the only Department under distress conditions as far as management is concerned. Not that the present incumbents in part inherited 90 percent of it, but nevertheless nobody put a gun to their head to take over, and they are in charge. And this is what I am asked all along, what can you do about this? It is not enough to say it happened in the past. What are we doing now?

Under that mandate, it is easy to see that it is budgetary. But how in the world would I ignore the plea from almost every jurisdiction that has a Shelter and Food Program, asking not to remove the program from FEMA to HUD. Even that is significant to me.

But also, knowing that administratively a case would have to be made to me, consistent with the inspector general's advisory, as to how it would be administered under HUD, in a suitable and satisfactory fashion comparable to what is the case now.

So I wanted you to know that. It all goes back to this tremendous concern and commitment. In 1982, I advocated emergency. And you are right, Ms. Foscarinis, the main thrust should be emergency. I have hesitated to institutionalize an emergency program. That is where we are headed.

The other observation that was made by Colonel Slusher is very accurate, and that is that the main thrust of the program and its intent is being served. And you said that in your statement on where the pockets of unemployment have developed. This program established by even those who have worked with you has prevailed.

That is right. That is the way it was intended, single-mindedly. But overall, behind all of this, is the fact that the most acute dis-

tress came in 1985, in September, when our government became a debtor government for the first time since 1914. You might say, what has that got to do with this? Let me tell you, it has everything to do with it.

I was here, and I was observing, and I was raising my voice, but unfortunately there wasn't much concern. I have never been one for finding scapegoats, and I am critical and I have been critical, not just of this administration but other administrations, whether they belong to the party I adhere to or not, and critical of the chairmen of the Federal Reserve Board.

I have been on this subcommittee where I have observed at least nine different chairmen of the Federal Reserve Board, and I think each one of them, if they were to come here, would testify that I was critical. I don't believe in making a scapegoat of anyone, because the system is reflected, and they are hamstrung. If the President gives us a budget that cuts, then the promise that we had hoped for isn't being fulfilled.

But when in September 1985 it became obvious why we became a debtor nation, and that was because we began to borrow. We have been living on borrowed money, because it has taken foreign investment money that has bought and helped us to pay for our debt. Very dangerous, because it means that our Treasury, and its bills and notes, have been 35 percent in the hands of foreign investors.

All of that, sooner or later, I said in 1985, is going to be reflected, no matter how challenging and new and invigorating an administration we get at some future time. Whether or not this one changes its course, we are still going to face that.

So with all of those limitations, I can understand why the Secretary has to conform.

However, in the specific case of the removal from FEMA, I think each and every one of you has made it plain.

Dr. Culhane, I wanted to thank you profoundly for the tremendous work you have done, because without the accurate assessment, if we don't know where we are coming from, how do we know where we want to go? If we don't know where we want to go, any road will take us there. But we do know where we want to go. And we want to thank you for being of such invaluable help.

We can have all the committees and task forces we want, but we can't do the work you have done. I wish we could. And the way our budgetary structure is in the House, we are not going to get the resources to do it.

In your studies of the homeless population, other than the general observations you made in your statement, have you witnessed or have you noted any breakdown in the delivery system of these Federal programs—that is, in meeting the needs of this particular population, whether they are in housing or services—and would you have any recommendations you could give us, either now or later in writing, as to what you would suggest in case you feel that your observations have led you to believe there are some shortcomings or a breakdown, what we can do?

Mr. CULHANE. I am unprepared to really comment on trends across the Nation. I have only looked at the two systems that I referred to, in Philadelphia and New York. But I think there is tre-

mendous variability nationally in the adequacy of the range of services.

I might actually point to some programs that I think are of benefit that are worth replication, and that I don't think exist in the country in great supply. One is, in New York City there is a fairly extensive assessment process that goes on before families come into the system. They have actually implemented a diversion program where every family, before they have to spend time in the shelter system, goes back to their income maintenance center where they are evaluated by a team of people who try to relocate them in the community, try to support them with the families that they came from, provide relocation assistance before they show up in the shelter system, and that program is actually demonstrating cost savings for the city in terms of reduced shelter expenditures.

And there has in fact been a decline in new admissions to the system since that program was implemented. Unfortunately, families in the system are staying longer, so that the actual overall costs have remained the same.

I think prevention, of course, is very important overall in terms of increasing housing affordability and income and jobs over the long term. But in terms of late stage prevention, I think a lot more could be done immediately in trying to prevent people from coming into the system, or if they do, prevent them from staying very long. And I don't think there are a lot of services that are out there that are geared toward resettling people.

We have services that are really reactive, that provide people with shelter and things that they need immediately. But we don't have a lot of community-based programs to try to keep people from coming in or to try to relocate them and follow them once they have gotten out so that they don't come in again.

And I think that sort of programming really needs development. Chairman GONZALEZ. Thank you very much.

Well, Ms. Martin, when we heard from you the last time, it was also a period of distress. You had barely come over from New York, HUD, when here they were going to eliminate it.

Since then, have you had a chance to meet with the council, and what in your opinion over and above the statement you gave would you say has been the progress that the Interagency Council has made since you came over to it?

Ms. MARTIN. Actually, sir, we have met several times, many times on a monthly basis since last fall, and during the period of time when we were working on the Federal plan, we were actively engaged in ongoing task forces to produce that Federal plan.

There are several discussions and activities that we are undertaking in our meetings, and examining the Federal programs and the direction for homeless policy. And it is important to note that the work that Dennis Culhane and several of the other researchers have done really helped contribute to our knowledge of where we want to go with homeless programs and policy.

It is very clear to all agencies of the Interagency Council that we need to start looking at other than emergency responses. While the past approach on the Federal level has been very effective in responding to the emergency, which is agreed across all agencies, everyone recognizes that the need is severe, that as you have identi-

fied, we have a new problem today, we have all these resources, why aren't they working, what is wrong with the mainstream programs? There seem to be barriers. We have a program here and a program there. We have begun to discuss how we might look at consolidating programs, how we might, as agencies, work more closely together, where we could streamline, and is it possible to do that within agencies as well as across agencies.

So those discussions have been very active around the council. The policy group members have discussed this, and it has been agreed that we need to move away from emergency services toward the mainstream, do everything we can do to remove the barriers, recognizing that we have to move more toward prevention. We have to make sure that we can ensure a baseline of emergency services for those people we are not able to prevent from becoming homeless. We can make sure their basic needs are addressed, but then begin to look at building the capacity of the mainstream programs to serve people who are currently homeless.

The Department of Labor, for example, is looking at taking the experiences of the Job Training for the Homeless Demonstration Program and transferring that information to the Job Training Partnership Act Programs around the country, so that we learn from what we have practiced in the past, and translate that through technical assistance and planning into the traditional mainstream programs.

All the agencies are looking at that move. We have the discussion inside HUD, as we have talked about today, with HUD looking at its own programs, consolidating, and beginning to look at how you tie the homeless programs to the overall Affordable Housing Program, and coming up with a planning process that would ensure that homeless programs in the community are no longer separate from the regular affordable housing programs.

The same thing is happening at HHS. The discussions about welfare reform, looking at people with serious mental illness, with health care needs, people who are recipients of AFDC, who are homeless; how can we look at the mainstream programs and see how those folks who are served in the current demonstration programs of that agency can receive support and access to the larger reform efforts in that agency.

Those are the discussions we have been having around the council. So to the extent that we are looking at reinventing the approach, we are looking at reinventing the approach across the agencies of the Interagency Council, and recognizing to some extent what we have been doing, while we built this emergency system, it is now operating in a vacuum in relation to other community services and programs.

And we want to do all that we can do to link the emergency services system to the mainstream. As Dennis has identified, the communities are in need of support services. People are falling out of communities. We want to do everything we can do to put them back in communities.

That has been the tenor and the tone of discussions that we have had. I believe it will be reflected in the Federal plan when it is released.

Chairman GONZALEZ. Yes. Very good. I notice in your statement about the Department of Labor and the JTPA. Let me say, I have been very concerned about JTPA. In fact, it took 3 years and just 2 weeks ago I finally received the inspector general's report, and it was devastating. The city has a rotten record of misspent funds, the enrichment of few at the cost of the poor.

Therefore, I hope not too much reliance is going to be placed on JTPA. If my city's experience is any indication, and apparently it is according to the inspector general's office of the Department of Labor, it is not just local. In the years that San Antonio has used that, they ended up with a total of over \$148 million, and the inspector general's report shows clearly that there are at least \$7 million that the city should in all honesty pay back to the Federal Government for its misuse. And it is very disturbing.

So we want to make sure we realize that some of the other programs and the other Departments have their problems.

Anyway, I have some questions for the other panelists, but I will submit them in writing, because of the time factor. I have taken more than the usual time.

I will recognize Mr. Vento.

[The questions referred to can be found in the appendix.]

Mr. VENTO. Thanks, Mr. Chairman.

Obviously, your comments, as usual, are very insightful in terms of the problems. I guess as I was listening to some of the early problems you talked about early in your career in Texas, I think some of our local government colleagues could relate to the same phenomena in the 1990's, unfortunately. I am about to go over to the floor, I have to go eventually sometime today and give a talk about kids killing kids, to stop kids killing kids. Homicide is the leading cause of death among those 20- to 35-year-old black Americans, the second among white Americans.

It is tough stuff. Things are happening. One of the problems is that nonprofits that are sitting here before us, and the researchers and others, they are providing the homeless assistance, and historically have been able to do so without direct Federal intervention, obviously indirectly through the assisted housing programs, public housing programs.

But today, it would be impossible to do that. I think we need to realize they provide the great bulk of these particular services and shelter. And so whatever we do, we have to find the right type of cooperation and collaboration with them to get the job done. The programs become very important in that sense, because we don't want them to be discouraged.

We have a real tendency in HUD, and with all of us who work in government, not to be aware of some of the nuances that need to be brought into this particular system.

You asked Dr. Culhane a very interesting question, and one of the findings that we had was related to eviction. I wanted him just to comment briefly on this eviction issue, because they did find some—not some causes necessarily in the shortfall of Federal programs, but in terms of asking people what happened to them, what was their last residence.

And, Dr. Culhane, do you want to comment on that?

Mr. CULHANE. Actually, about half of the people coming into the Philadelphia shelter system report substandard housing conditions as the primary reason, either in their home or in their neighborhood as leading them into the shelter system. And also, the other primary reason is people being evicted by other family members.

A lot of the folks, both single adults and the families, are not primary tenants. Some of these neighborhoods I have shown you on the map, we have gone and looked at, and some of them are stable, homeowner neighborhoods. The people who are the primary homeowners are there. It is the children who basically wear out their welcome; they are living with their parents in their thirties and forties.

We have to really think not just about eviction prevention, which is very important but also look at the issue of families who are really having intergenerational care for people in their families, and don't always have the support to do that.

In many cases it is not appropriate for them to be in those households for that long period of time.

Mr. VENTO. Dr. Culhane and his colleagues, Bruce Link and others, indicate that this is a phenomenon that is increasing. We talk about the fiscal deficit but we don't talk often enough about the human deficit in our society. And that has been growing significantly. The number of children below the poverty level is one in four, practically. The number of people without housing, now we are talking about the increasing percentages that you see here, I think his work indicates that 7 percent of the population at some time has been homeless. Is that correct, Doctor?

Mr. CULHANE. Mine shows 3.5 percent over 5 years but the work of Bruce Link estimates 7 million Americans, which would also be 3.5 percent.

Mr. VENTO. Over 5 years.

Mr. CULHANE. Over 5 years. But they found 7 percent lifetime.

Mr. VENTO. I didn't want to accuse you of something—

Mr. CULHANE. That is fine.

Mr. VENTO. I think it does point out, Mr. Chairman, a significant number of people that have experienced this phenomenon and are going to experience it. Our housing programs, as good as they are, have long waiting lists, and they are not able to use the funds in a way that would address this particular problem even though they are programs that are working.

And that means partnerships with these nonprofits and with others like the Fannie Mae and Freddie Mac can help us do the job.

Obviously, the consolidation issue has been very much discussed. One of the questions that comes up is, of course, the percentage change in terms of the match. Up to this point it has been pretty much 50 percent.

So do any of the panelists have any views on that match? Lieutenant Colonel Slusher, has it been difficult to find the match money? Mr. Hooper.

Mr. HOOPER. It hasn't been for us in Philadelphia.

Mr. VENTO. So there is no problem.

Ms. FOSCARINIS, did you have any problems on the match?

Ms. FOSCARINIS. Only that we are concerned on maintenance of effort. That has to be insured.

Mr. VENTO. Nan, did you have any comments on 50 percent versus 25?

Ms. ROMAN. I think we are satisfied with the 25 percent match, it is a reduction.

Mr. VENTO. Has somebody had the shortage of not being able to use the money?

Ms. ROMAN. We have heard from some members that it is difficult for them to get the match.

Mr. VENTO. I guess it gets to be, whether it is soft or hard, I guess if it is 25 it is going to have to be a lot more firm. If it is hard or soft, if it is 25, it might have to be more firm.

Ms. ROMAN. That is true. I think it is relatively soft in the legislation that is proposed. It is non-Federal funds, but there is a lot of volunteer effort and so forth.

Mr. VENTO. It is soft now, but that is something that has to be addressed.

Let me say, Lieutenant Colonel Slusher, and Mr. Hooper, that I listened carefully to your comments about FEMA. I think the real challenge is what really is being portrayed by the administration here is the necessity to cooperate and collaborate with what is being done.

I think, frankly, I wish in some respects the chairman of the board council was my idea, because it has worked very, very well. But the question is, how do you coordinate and cooperate? There is a necessity to bring this all together with, for instance, entitlement communities and the State. That is really the problem.

I know you can't answer that, but I want to suggest to you it was a question of how can we have that together in terms of addressing or challenging what is being proposed. Do you have any comments on that?

Colonel SLUSHER. Well, our real main concern is the fact that we do not change the structure of the program as it operates now. Sometimes when you move things from one section to another, there is a need, or you feel there is a need, for a change in the situation. I think that is what frustrates us most. It is working so well, and if it goes through any other realignment, it may not be as effective to the end user.

And the fact that we are moving at such a fast pace right now—

Mr. VENTO. My question is really more of a rhetorical question, and I apologize for asking a rhetorical question, but it is I think the essence of what needs to be addressed, if there is really a rational policy. I think the idea of consolidation means we have to have some of this together. The question is how can we do that and still leave in place the type of program that you have?

Colonel SLUSHER. We already have a network of a countless number of boards already in place, which are people out there that we do not want to—

Mr. VENTO. I understand that.

Colonel SLUSHER. That is where my concern is.

Mr. VENTO. The thing is, if we are going to do something, can we build upon what is working or do we have to reinvent something because we have a new program. I understand that. It is

going to mean trying to bring it into collaboration with local governments in consolidation.

The point is there have been a considerable number of members of the subcommittee that have wanted consolidation for a long time. We held back because we didn't know which programs were working and which weren't. There probably are some, as Ms. Roman has indicated, which are inappropriate for consolidation.

The question here is, your program already is on a consolidation basis in a sense, as is the Emergency Shelter Grant Program. So it is a question of how do you bridge the gap that ties this together so that we are sure these networks are working in a collaborative way. That is the challenge that I face. That is the one you should think about. I know you can't answer it now.

Let me return to the issues of the SROs, the section 8, the Shelter Plus, the units that are provided in terms of assisted housing, the various programs.

Ms. Roman, you indicated you thought they ought not to be included into the consolidation. Can you give us a little more detail on that?

Ms. ROMAN. I think it is a possibility worth looking at. We have to see how the numbers play out. I guess we have two concerns. One is that if the formula is applied across too broad a swath, across too many communities, the amount that goes to any individual community would be too small to provide permanent housing.

There is certainly going to be a lot of pressure from HUD to provide permanent housing with these funds. That is after all really the focus of the continuum of care, that there be some response on the permanent housing side to the number of emergency beds.

But there is not enough in this pot overall to meet all those permanent housing needs with the McKinney money. And HUD again has quite rightly pointed out we need to access CDBG, HOME, and section 8 resources for that.

My concern is if we spread that McKinney money too thin, there won't be enough for permanent housing there, yet the pressure will be to provide permanent housing from that pot.

One thought we had, as raised really in the guidance from the conference report, was to hold out those programs so you would be sure to have the creation of at least some units of SRO housing that is targeted to single adults, many of them with disabilities. That is an important targeting from the Federal level that we lose if we consolidate the funds at the local level.

Mr. VENTO. I think you are right, most of this would gravitate to the States. I don't know how many entitlement communities, the SRO programs, how many would you be eligible for units. I guess you could suggest a certain percentage of it be allocated for permanent housing, which I think, though, again, sort of begs the question whether or not it would be enough, I mean, to do that.

So there might be a case here, at least in this instance, for leaving that with the Secretary to in fact ensure it. It also is different in the sense that permanent housing implies sort of longitudinal support. In other words, multiyear support, does it not?

Ms. ROMAN. Yes.

Mr. VENTO. That doesn't spend out as quickly as the FEMA money, obviously. This is one of the problems we get into in terms

of programs which are more long-term in terms of meeting the needs. I don't know if it quite matches in terms of the 50 percent formula, these particular monies I guess would be an exception, when we talk about that.

I think that it is a thought worth making here. I think there are questions that need to be answered by those who propose to fold it in.

One of the things with regard to the plan, as I look at the HUD plan, Ms. Martin, in terms of the draft documents, was that it talked about HOME and CDBG and section 8 in the local communities, and there is a real need, I think, to take those resources and focus on this population, so that regular programs meet the need.

But don't you think that the criteria in the plan ought to look at other social factors and circumstances that also exist, such as evictions, and what a city is doing about that or a State is doing about something like evictions, which are a big problem? Not just casual evictions. I am talking about the formal, legal ones.

Ms. MARTIN. Oh, sure. Two comments I wanted to make also relate to a comment that Nan Roman has made.

The goal of the continuum of care and local planning is to facilitate the ability of a locality to identify and assess its need and to plan for the development of its system. If a locality suggests that it has adequate emergency and transitional services and programs but does not have adequate permanent housing, it could elect in its plan to use the monies for housing as part of its continuum.

The idea of the continuum is to have flexibility built into it so that based on that locality's need it can determine how it would use the funds. So it is not meant to be a menu of resources that every community would have to do every piece and use the money all along. So the permanent housing vehicle in the Homeless Assistance Grant Program is meant to serve that purpose.

As it relates to the other affordability housing programs and other efforts, a community can also decide that its continuum will include an active, aggressive prevention component, an eviction prevention component, and work with local resources—legal services, local entitlement programs—whatever it might be, to put dollars to work in eviction prevention, as well as the followup services.

The continuum is to be defined by the locality. And if the locality suggests that it needs a very aggressive eviction prevention, early intervention program, and can document such, those would be eligible activities.

Mr. VENTO. I understand, I think I understand that, but I guess at some point you have to say this is not going to be funded from it. I don't know how far you can go in terms of services, which has been a basic issue.

I think the point is if you have some benchmarks, one of them is CDBG, one is HOME, one is assisted housing, the other benchmarks ought to also deal with some of the major causes of homelessness or prevention of it.

As an example, we found that one of the—the inspector general on housing—pardon me, in Health and Human Services, indicated that the cost of providing prevention was like \$440 per person versus nearly \$3,000 once people were homeless. So you can basically treat prevention for one person in a shelter.

Ms. MARTIN. I am actually very familiar with the program in New York. I established it. When you talk about HUD Programs and HUD dollars, the Diversion Program draws down HHS resources and does not use HUD resources for that service, and makes a very clear distinction that that is emergency intervention for families, and uses the emergency assistance money that is part of the social services dollar versus a HUD housing dollar.

So when you were asking the question about the eviction prevention and HUD resources, the model that it describes and the resources that are utilized are social service dollars, not HUD dollars, which I would assume this model reinforces that.

Mr. VENTO. I recognize that. The point is we want to be certain in the requirements for a plan that that is a major element, even though they are dollars that are HUD dollars, because we tend to think because it ends up being written by HUD, it ends up referencing all of the dots and crossed Ts, but it doesn't reference some of the other issues in terms of SSI and other types of dollars that are available that need to be engaged in terms of not transferring the funding responsibility from HHS to HUD by virtue of using McKinney money for this particular purpose. It won't do it. So it gets to one of the fundamental issues—and I commend you for instituting such a program. Now we want to make sure other communities also engage that type of resource.

Mr. Chairman, there are a lot of questions that could be asked. I think that, obviously, we need to maintain as much of the local involvement as we can in terms of nonprofits. There have been some safeguards that the Assistant Secretary, the Secretary, and others have suggested in proposals that have come before us. We will look at it very closely.

Was there any view on this—for instance, the Interagency Council now is permanently chaired by a representative from HUD, Ms. Martin—is there any view in terms of changing that so that we could rotate that Chair of the Interagency Council between the various agencies?

Ms. FOSCARINIS, do you have any view on that?

Ms. FOSCARINIS. I think it is very important for the Interagency Council to in fact be an interagency council, and involving the other agencies actively is critical. One way to do that may be through rotating the Chair.

Mr. VENTO. One of the problems with FEMA, as I listen to this, of course, and the discussion is that FEMA has intrinsically a responsibility for emergency shelter, such as the earthquake type of problem in terms of funding and so forth. That I assume would still be in place, would it not? That is still going to be a function they have to respond to. So there is, obviously, this transition that is being proposed in this instance.

Well, I will submit additional questions in writing. The other suggestion that came up in an early opening statement was a suggestion about the closing of State institutions.

Is there anyone at the table that wants to comment on the closing of State institutions and the relationship of deinstitutionalization to the problem we have here today?

Mr. Culhane, you talked about one institution where people went from the jails into the street. What about other institutions?

Mr. CULHANE. The second most frequent institution from which people come is a psychiatric hospital. But not being a State hospital, because we don't have a State hospital in Philadelphia anymore. So there are private hospitals also discharging people to the shelter system. So I think improved discharge planning and mandated discharge planning that includes some kind of housing provision would seem to make sense. And building some kind of step-down care from inpatient as part of health care reform.

Unfortunately, mental health is not being treated at parity with other disorders on the inpatient side, which could potentially lead to more homelessness, because that inpatient benefit is not sufficient. And moreover, for every day a person spends in the hospital it takes a day off the residential benefit. So although there is some housing for people with mental illness—residential treatment—in the health care benefit package, it is only 60 days, and for every day a person spends in the hospital they lose 1 of those residential days.

So people with chronic mental illness with typically on an episode of inpatient spend 45 days in the hospital. That leaves them 15 days in a residential treatment facility before they then get discharged back to the shelter system. So it is something—

Mr. VENTO. I agree, but, Mr. Chairman, one of the points I wanted to make, and I don't know if others at the table want to comment, but I think it needs to be made; that is, that those that are discharged in this way tend to be what you call the chronic homeless, that is to say, it really isn't as easy to place them if you have some sort of severe disability, mental disorder, alcoholism, drug abuse type of problems are much more difficult, so they are much more difficult. They are on the street.

But in terms of the numbers of homeless, they don't make up the majority. Certainly, they make up a small percentage. Is that correct, Doctor?

Mr. CULHANE. We have recently done a preliminary analysis where we crossed all the shelter records with the Medicaid records, and also with the community reporting records, and we found that longitudinally, about 15 percent of the single population has had a prior treatment for serious mental illness. If you include children it drops to 7 percent.

Mr. VENTO. Seven percent, if you include children, they are homeless, so I guess they ought to be included. But if you want to make the most extreme statement, you could say it is 15 percent. But 85 percent of the problem is due to something else.

I think it is enormously important, because clearly the institutionalization represents a special challenge. And these folks are visible, they are on the street. This is the view that many have—it is someone else's problem. The local, State governments are discharging people, and when that stops, the problems would end.

Mr. CULHANE. That is not true but, of course, it would help in reducing homelessness for that population.

Mr. VENTO. Your answer was in response to it, I recognize that.

Ms. FOSCARINIS. Just an additional comment. Quite apart from the issue of the deinstitutionalization as a cause or not a causal factor in creating homelessness, I think it is important to note that people being discharged now from institutions, both mental hos-

pitals and prisons, should be receiving help in applying for benefits they are already entitled to. And there is in existence a program, not being fully implemented, a prerelease program to do that, to make sure people can apply before being discharged to the street.

But in addition, there has to be a housing component to that, so that people are able to leave and have a place to live in once they are discharged, and health care reform is an opportunity to do that.

I know that that point is included in your task force's report.

Mr. VENTO. One of the things I also wanted to point out to the chairman and members of the subcommittee, I was sort of struck by this, that many times we have people with mental illness or other types of disabilities that are on the street, and it is impossible for them to obtain a payer representative, a guardian of their check. That is the problem. They do not have rep. payees.

If you want to receive SSI or some other benefit that you have coming and you are not supposed to receive it directly, very often you are relying on a fellow homeless person as their payer rep. I couldn't believe this.

I challenged the various groups that I was with, the Catholic Charities and the Lutheran Social Services, to tell me it isn't true. But they couldn't. They said, no, it is not an easy job, Bruce. And the counties, incidentally, or the city receives nothing to do that, whereas nonprofits can receive a small amount of money.

But it is incredible that these people that basically have these severe mental disabilities, severe substance abuse disabilities have no one to help them manage their money so they are out there paying for a check place, check-cashing facility on the street, no bank to keep the money. It is unbelievable that with the type of disabilities they have, is it any wonder they persist on the park bench. And that is about it.

My time has obviously expired, but I thought it was such an important point when I learned of it. Of course, all of them are nodding their heads because they have known it for years. But to me it was news, Mr. Chairman. And I wanted to share it with you and with others in the room.

Thank you, Mr. Chairman.

Chairman GONZALEZ. Thank you.

Ms. Roybal-Allard.

Ms. ROYBAL-ALLARD. Mr. Chairman, in the interests of time, I may submit questions at a later time. But I would like to make one comment on a point that has already been made.

Chairman GONZALEZ. Certainly.

Ms. ROYBAL-ALLARD. That is to express the tremendous concern that many of the homeless agencies and advocates have, particularly in Los Angeles, which is the area that I represent, with regards to the whole consolidation movement that is being proposed. And the concern is, as you probably have heard, is that if it is done in more or less a sort of a block grant type of situation, that technically in California, where there has been very little commitment to the homeless situation, that those who work with the homeless and advocate on their behalf will never see the money.

Sacramento is famous for supplanting resources. And so I am hoping that as you move forward in this whole reorganization and consolidation, that there are real safeguards put into place that

will help guarantee that these great fears of money not reaching the people it is intended to reach will not in fact happen.

Chairman GONZALEZ. Thank you, Ms. Roybal-Allard.

Well, I think the witnesses have been most patient. We do have some questions, and I am going to ask unanimous consent that all the members have an opportunity to send questions in writing to the panelists. Some just are not in the city because of the death of President Nixon.

And I wanted to thank you again for your tremendous help. Your statements and your attached statistics and all, Colonel, were very good. Most helpful to us.

So I have about four or five questions I am going to submit in writing. There is no use taking your time now. So thank you very much. Unless you have a statement or have a question of your own, we will proceed to the second panel.

[The questions referred to can be found in the appendix.]

Now we will have Kate Rollason, executive director, the ARC of Southern Maryland, Prince Frederick, Maryland, on behalf of the Consortium for Citizens with Disabilities Housing Task Force; Mr. Francisco Carranco, member of the national board of directors, American Association of Retired Persons; Rev. Laverne R. Joseph, president and chief executive officer, Retirement Housing Foundation, on behalf of the American Association of Homes and Services for the Aging; and Ms. Aimee Berenson, legislative counsel, AIDS Action Council.

We want to thank each and every one of you witnesses. You have been patient. We are very grateful to you. Some of you have been here before, and have helped us immensely. I notice some have traveled all the way from the border, from Laredo, Mr. Carranco.

Without any further ado, is there any reason why we shouldn't recognize you in the order I introduced you? If not, we will recognize you first, Ms. Rollason.

STATEMENT OF KATE L. ROLLASON, EXECUTIVE DIRECTOR, THE ARC OF SOUTHERN MARYLAND, PRINCE FREDERICK, MD, ON BEHALF OF THE CONSORTIUM FOR CITIZENS WITH DISABILITIES HOUSING TASK FORCE; ACCOMPANIED BY KATHLEEN H. MCGINLEY, Ph.D., ASSISTANT DIRECTOR, GOVERNMENT AFFAIRS OFFICE, THE ARC

Ms. ROLLASON. Mr. Chairman, members of the subcommittee, thank you very much for this opportunity.

As you said, I am here representing the Consortium for Citizens with Disabilities. As you mentioned, I do work for the ARC of Southern Maryland. It used to be known as the Association for Retarded Citizens. It probably is better recognized that way.

I have had over the years experience with housing programs, including section 811, section 202, CHSP, and will offer my comments in that regard.

People with disabilities, obviously, have an urgent need for low-cost housing. They make up one of our largest minority populations. Unlike other minority groups, however, they are not always set apart by their demographic categories. Disability transcends race, sex, national origin. More often than not they were people who fall into the very low-income range.

Data compiled by the Bureau of the Census reports that Americans with Disabilities from 1991 to 1992 demonstrates that 45 percent of the people with severe disabilities over the age of 15 have low incomes.

For people with severe disabilities, only 27.6 percent of them are employed. Independence, integration, and productivity are goals of our entire disability community. Public policy concerning the lives of people with disabilities needs to reflect these values and be designed to achieve these goals.

The lack of available affordable and accessible housing has long been a critical problem for people with disabilities that limits their lives and hinders them from becoming independent and integrated into their community.

Likewise, it also prevents them from contributing back to their communities. Like all individuals, people with disabilities have the same need for decent, safe, and affordable housing.

In 1987, the national ARC conducted a national waiting list survey. It showed that over 60,000 people with mental retardation were waiting for housing and community-based residential services. Several States didn't participate, so even though it was a national study showing over 60,000 people in need of housing, it still showed a low mark.

Reports in 1991-1992 to the national office of the ARC from only eight States indicate 46,000 people in need of housing. According to information compiled by the National Association of State Directors of Developmental Disability Services, the number of people participating in the community supported living arrangements program, which Congress authorized several years ago—and which is wonderful, thank you for that very much—has more than tripled during the last 12-month period and it has grown from 624 people participating to 1,900 people.

Within this Medicaid-funded Program, which unfortunately is only authorized for eight States at this point, and Maryland is one of them, the lack of affordable housing is a major problem. The lack of affordable housing is what is, as was talked about before, one of the reasons why people end up being institutionalized.

Another example of the need for an array of housing options in the community is demonstrated by the data from February 1994 from the State of New Jersey. According to the ARC of New Jersey, over 4,100 people are on the overall waiting list for housing. Of these, over 1,000 of them fall into what is considered category 1. Category 1 is where you are at serious risk of harming yourself, harming someone else, becoming homeless.

In 1987, that number was less than 100. Many people with mental retardation and other developmental disabilities fall into a category where they live at home right now with their parents. Their parents have been wonderful care givers over the years. As our society ages, however, their parents are also aging. And if affordable housing is not made available for people with severe disabilities as their parents die, they too will end up being institutionalized at far greater cost to society.

In my own State of Maryland, over 50 percent of the people who are currently waiting for services live at home with parents who are over the age of 60.

Many younger people who have physical disabilities spend their days languishing in inappropriate settings such as nursing homes because there is no physically accessible housing available to them. People with disabilities, just like all of us, have a need for a variety of supports, supports that may change over the course of their lives, as all of ours do. Some people are going to need a full array of supports, personal assistance, which can be anything from help with bathing and dressing, help with managing money, including legal representative payee, and there are not-for-profits like ARCs who do that, or transportation getting to doctor's appointments.

Other people with developmental disabilities or any type of disability need more limited assistance. It might be someone that drops in once or twice a week to check on how they are getting bills paid.

Some people with disabilities are just going to need the regular supports that are out there in the community, like food stamps and rental assistance, because they are poor. So it is critical at this juncture to make the point that while supportive housing programs are of major, major importance to the disability community, not all people with disabilities are in need of supportive housing, as characterized by the current specific HUD programs.

We continue to stress the provision of housing must be based on individual need and not on the categorical determination that because a person has a physical or mental disability, he or she will always need to live someplace special and apart from the rest of the community. People should have the right to live as members of their community.

The Section 811 Supportive Housing Program, which was formerly part of the Section 202 Program, has for years been one of the only Federal sources of funding for housing for people with disabilities. It is a very valuable resource, and one that needs to grow and change to address both the increased demand for decent, affordable, and accessible housing for people with disabilities, and to reflect the evolving philosophy of the disability movement and what we hear from people with disabilities.

Congress was extremely responsive to efforts by the disability community in the National Affordable Housing Act in 1990 when it expanded the eligible options to include the acquisition of units in condominiums, cooperatives, and other multifamily developments, as well as to include properties held by the Resolution Trust Corporation. We were extremely pleased with those actions, and look forward to using the Section 811 Program to try new and innovative ways to provide a range of integrated, scattered-site housing in the community.

HUD has been a bit less than forthcoming in guidance to housing advocates and housing sponsors on how to utilize these new options. It appears as though HUD is finally beginning to move to provide some direction. Up until this point the people who have attempted to utilize those options have been very frustrated, and therefore it is very underutilized.

In the Housing and Community Development Act of 1992, a new tenant-based rental assistance component was added to the Section 811 Program. This new assistance was designed to help compensate for the loss of housing resulting in the HCDA support for

excluding nonelderly residents with disabilities from housing that is now being converted to elderly only.

At that time the disability community raised two concerns, that the inclusion of this new component under the Section 811 Program must not force individuals who do now or could in the future live in the community without supports, into a program such as section 811, which is designed to provide those supports, and that this new component not take needed funds from the traditional section 811 capital advance and project-based rental assistance component, a program that adds to the existing housing stock.

Those concerns are still valid today. However, due to the ever-increasing need for a range of housing options within the community and the absence of those options, we support the Section 811 Tenant-based Rental Assistance Program as a tool to once more move the entire Section 811 Program forward, consistent with the thinking of people with disabilities in the community.

Now, if implemented, not only could section 811 be used to build or acquire new housing in the community in a variety of integrated forms, it could also offer a new option: Access to tenant-based rental assistance, giving people another choice, an important principle for people with disabilities.

The CCD Housing Task Force has several recommendations related to the Section 811 Program. And as the reauthorization process continues, we will be happy to share them with you in greater detail.

But in brief, those recommendations are: We recommend that the program in its entirety, both capital advance and project-based rental assistance, as well as tenant-based rental assistance, be reauthorized with adequate specified funding levels to assure the viability of both of those components.

We recommend that there be equity or a 50/50 split in the division of authorized funds between section 811 and section 202, based on the demonstrated need for more housing for people with disabilities.

We recommend that Congress direct HUD to comply with congressional intent, demonstrating and expanding the range of eligible Section 811 Program options in the national affordable housing and the HCDA.

We also recommend, fourth, that Congress direct HUD to streamline the application and approval process for section 811, making it reflect the fact that this is now a grant program and it is no longer a loan program.

Likewise, we support the reauthorization of the Congregate Housing Services Program, and the recommended authorization level for the program included in H.R. 3838. There is a continuing and growing need to provide people with severe disabilities of all ages with an array of personal assistance and individualized support services to enable them to live independently in the community. This program truly helps people to do just that.

Sometimes the availability of those services is really all it takes for somebody to be much more independent. In St. Mary's County, down in southern Maryland where I am from, ARC has been a grantee since 1982.

I want to give you a small example of how CHSP has helped people stay out of institutions and to really contribute to their community. It is a small group home, it has four people who live in it. Three of the women who live there have serious medical problems, things like autism, diabetes, hypoglycemia. These same women spent the vast majority of their lives in institutions for the mentally retarded.

Because of the intervention of CHSP and individualized dietary assessments and diets, which come through the CHSP dollars, one woman in particular, who has diabetes, has been able to avoid using insulin, and has become much more independent and stable on her own.

All four of the women are involved in some type of day program. Two of them receive weekly paychecks. And on a nice note, there is a project called Christmas in April where members of our community all pitch in to help. Last weekend two of those women were volunteers, not recipients of services. They were actually volunteers out helping other members of the community who needed help in maintaining their housing.

I would also like to take just a moment to talk about the McKinney Program. Certainly, we are not on the panel to deal with homeless issues, but two of the McKinney Programs are of extreme importance to people with disabilities. The Permanent Housing for Homeless Persons with Disabilities Program and the Shelter Plus Program provide housing and supportive services to homeless people with disabilities. These programs recognize some of the significant challenges that homeless people with disabilities face, particularly those who are not connected to a support system such as family, friends, service providers, or advocates.

For example, homeless persons with disabilities often have significant and varying health care needs and some individuals require housing which is accessible to people who use wheelchairs, or for people who have visual or hearing impairments. Many people need help in applying for public assistance, finding transitional housing placements, arranging for support services, and ultimately finding permanent housing in communities of their choice because of the added problem of their disabilities.

Just as we recognize that some individuals with disabilities need permanent housing, combined with supportive services, we also must recognize that many homeless persons with disabilities would not be helped if specialized programs such as Permanent Housing for Homeless People with Disabilities and Shelter Plus Care did not exist.

Funding, of course, is a critical issue for these programs. While this program has fluctuated over the years, requests for funding from nonprofit organizations continue to grow.

We urge the subcommittee to significantly increase the authorized funding levels for these programs.

We appreciate this opportunity to testify on behalf of specific supportive housing programs such as section 811, CHSP, and the McKinney Programs. We continue to believe that with your assistance, these programs can and will grow in ways that bring a range of housing options and supports to people who want to live successfully in the community.

I want to once again reiterate that not all people with disabilities need specific supportive housing programs. Many must be considered only on the basis of their income, as others are determined to be eligible for HUD public assistance housing, rental assistance, and homeownership programs.

Therefore, we want to take this opportunity to comment on a program that was included in the President's budget request, and which will also be included in the administration's Housing Choice and Community Investment Act of 1994. This program would provide a set-aside of 5,000 rental assistance certificates for people with disabilities.

We are very supportive of this initiative. We believe that the section 8 set-aside, together with the section 811 tenant-based assistance program, is a wonderful first step toward increasing the availability of housing and the housing choices of people with disabilities.

These two programs would help to ensure that the housing needs of those individuals who need support services, section 811, and those who only need housing assistance, section 8, will be addressed.

We would like to add our support, in closing, to the testimony that was provided to your subcommittee by the National Housing Law Project on March 17. The adoption of NHLP's recommendations will benefit all housing consumers with low and very low incomes, including those with disabilities.

I would like to thank you very much for the opportunity to be here today, and to provide you with thoughts on behalf of the disability community. I would be happy to answer or attempt to answer any questions that you might have.

[The prepared statement of Ms. Rollason can be found in the appendix.]

Chairman GONZALEZ. Thank you very much, Ms. Rollason.

Mr. Carranco, let me welcome you once again and thank you for your help once again.

STATEMENT OF FRANCISCO CARRANCO, MEMBER, NATIONAL BOARD OF DIRECTORS, AMERICAN ASSOCIATION OF RETIRED PERSONS, WASHINGTON, DC

Mr. CARRANCO. It is my pleasure, sir.

Chairman GONZALEZ. How is the city of Laredo?

Mr. CARRANCO. Dusty and hot.

Mr. Chairman, I am Francisco Carranco, a member of the National Board of Directors of the American Association of Retired Persons. And my home is, as we call it out there, Laredo, Texas. I appreciate the opportunity to appear before you once again to testify on the reauthorization of housing programs serving older persons.

Mr. Chairman, I shall start by expressing AARP's appreciation to you, to Mrs. Roukema, to Mr. Vento, and the young lady that I have not met before but whose father I met and testified before quite a number of times, and to the other members of this subcommittee who have contributed to the enactment of an impressive package of initiatives since 1987 to benefit older persons.

Despite these impressive achievements, much work remains to be done to adequately serve older persons most in need. In light of the continuing needs, the President's budget proposals for fiscal year 1995 are dismaying for the damage they would do to major housing programs. The deep cuts proposed for elderly housing, public housing, congregate services, and service coordinated programs would be devastating to the successful efforts of this subcommittee over many years.

AARP is very pleased that the chairman's Reauthorization bill, House Resolution 3838, stays the course on funding authorizations for section 202 public housing service coordinators and congregate services.

In addition, the association would like to offer several recommendations to improve existing programs managed by HUD.

Recommendation number one: Authorize an Assistant Secretary for supportive housing to administer housing and supportive services programs for older persons, persons with disabilities, and homeless families and individuals.

The recent proliferation of services programs administered by HUD largely stems from concern over the lack of supportive services, targeted to residents of subsidized housing by more appropriate agencies. The best way to avoid proliferation of such programs would be a negotiated division of labor between HUD and agencies charged with providing social services.

AARP believes that such policy negotiations require an Assistant Secretary to negotiate with counterparts in other Departments, with jurisdiction over services programs that are needed by residents of federally subsidized housing.

Recommendation number two: Make modest reforms to the Congregate Housing Services Program to improve the workability of the program. By providing supportive services such as meals, housing, and transportation, the CHSP has successfully prevented or delayed the older persons and persons with disabilities from section 202 public housing. The reforms made to the program by this subcommittee in 1990 made it possible to extend congregate services last year to the first new sites in over a decade.

The association recommends changes in three areas designed to correct problems with the efficient management of the program. First, change the matching requirements from 50 percent to 25 percent. The extraordinarily high matching requirements under this program have been the single biggest impediment to housing providers.

Second, delete the language with respect to services.

And third, amend the definition of "frail elderly" to give HUD the flexibility to make the CHSP and other programs that use or reference this same definition work better with existing or potential services programs.

Recommendation number three: Direct HUD to develop a comprehensive strategy to address the modernization, retrofitting, management, and supportive services needs in the existing stock of housing for older persons under the various subsidy programs.

Despite long involvement in providing housing to older persons, a 1992 GAO study found that HUD has no overall plan for the modernization, retrofitting, or management of housing facilities.

Title IV of the 1992 Housing Act provides an important tool for providing modernization, retrofitting, management, and supportive services needs in housing projects. That should be linked to a detailed strategy for modernizing and retrofitting these projects and for building coordination of services into project planning and budgeting.

Mr. Chairman, my written statement also contains recommendations related to the expansion of the home equity conversion mortgage insurance demonstration and to major reforms to be presented by the National Commission on Manufactured Housing. I will not go into those recommendations during this hearing since they are not on the topic of supportive housing. But I ask for the subcommittee's support of those recommendations as well.

And finally, Mr. Chairman, I thank you once again for the opportunity to testify before you and your committee, and thank you for the leadership you have shown in addressing the housing needs of older Americans. We look forward to working with you every possible way that we can.

Thank you.

[The prepared statement of Mr. Carranco can be found in the appendix.]

Chairman GONZALEZ. Thank you very much.

Let me say that your statement as you gave it, of course, will be in the record. Each one of your statements as you gave them to us in writing will be in the record exactly that way.

Reverend Joseph.

Reverend JOSEPH. Good morning, Mr. Chairman.

Ms. ROYBAL-ALLARD. Excuse me, Mr. Chairman. Could I have the honor of introducing him?

Chairman GONZALEZ. I beg your pardon. I was going to go on like a zombie. I was going to ask our distinguished colleague from California to introduce Reverend Joseph.

Ms. ROYBAL-ALLARD. Mr. Chairman, it is really a pleasure to introduce Dr. Joseph, who has been president and chief executive officer of the Retirement Housing Foundation since 1987.

RHF is the Nation's largest nonprofit sponsor and manager of housing for seniors and persons with disabilities, with 123 facilities consisting of 10,244 apartments, 443 assisted living units and 950 nursing beds in 23 States, including Puerto Rico and Virgin Islands.

I am very fortunate to have one of those facilities in my district known as Angelus Plaza. And in the conversations I have had with the seniors there, I can attest to the fact that it is a wonderful place to live, and many of the programs and services that are available there really do provide a quality of life for the residents. And I always look forward to visiting Angelus Plaza.

Thank you.

STATEMENT OF REV. LAVERNE R. JOSEPH, PRESIDENT AND CEO, RETIREMENT HOUSING FOUNDATION, LONG BEACH, CA, ON BEHALF OF THE AMERICAN ASSOCIATION OF HOMES AND SERVICES FOR THE AGING

Reverend JOSEPH. Thank you very much for those kind remarks. It is a pleasure to be here again, Mr. Chairman and Congresswoman Roybal-Allard.

I am representing the American Association of Homes and Services for the Aging [AAHSA], and also, naturally, Retirement Housing Foundation. On a personal note, I am very pleased to be testifying today for several reasons. There was a point last night when I wasn't sure. I managed to come through Texas during the height of the storm yesterday, visited San Antonio for 3½ hours and saw the runway there, and then got a bit of a taste of what it means to be without a place to lay your head.

Anyway, last night I laid my head on the carpet at the Dallas-Fort Worth Airport. And I am pleased to report that it is comfortable.

We would like to express our appreciation to you and members of this subcommittee for your leadership with the 1992 Housing Act. I was proud to testify 2 years ago before the subcommittee, and I believe that you have made a number of significant changes to assist elderly housing. We commend the subcommittee particularly for leadership in addressing the mixed population issue.

I am pleased that your bill, H.R. 3838, recognizes the need to strengthen existing programs, including the Section 202 Supportive Housing Program for the elderly as it supports many of the provisions in this bill. However, our testimony today will focus on those programs that specifically affect the nonprofit sponsors of federally assisted housing.

First of all, we know that there is a growing gap between the need and the supply of suitable and affordable housing for low-income elderly persons. Unfortunately, the level of funding for section 202 has been reduced on a continuing basis from the late 1970's, when over 20,000 units were funded, to the current level of less than half that amount. These funding cuts, coupled with an increasing elderly population, have resulted in multiyear waiting lists for thousands of very low-income elderly.

Currently, there are more than 250,000 elderly on waiting lists for these facilities. Congresswoman Roybal-Allard referred to Angelus Plaza, where I had the honor of visiting with her and with Congressman Joe Kennedy, and also Secretary of HUD, Henry Gonzalez—I mean Cisneros.

Chairman GONZALEZ. Cisneros.

Reverend JOSEPH. Of course.

Chairman GONZALEZ. Sometimes I am called de la Garza. That is how confusing the environment can get, Reverend.

Reverend JOSEPH. I agree and apologize for confusing the names.

Chairman GONZALEZ. That is a compliment. He is very young.

Reverend JOSEPH. I guess I am not as wide awake as I thought I was after 3 hours sleep last night.

In any event, when Secretary Cisneros visited Angelus Plaza and called it one of the finest housing facilities that he had ever seen and requested a photo for his office, I shared with him and I will

also share with you that there are more than 1,600 seniors on the waiting list for the units there. With 12 to 15 vacancies a month, that means that there is a 9-year waiting list, and of course, many of those people will never move into that facility.

Recently, one of our State associations conducted a survey of members' waiting lists, and among comments received were those from managers who stated that many of the elderly are so anxious to move into an elderly housing facility that they call, whenever they see a death notice in the newspaper, to see how this might affect their place on the waiting list. Unfortunately, the reverse happens in that many die before their name gets to the top of those waiting lists.

This past year in California, in the Los Angeles area, a new 75-unit section 202 facility was opened. It received more than 2,500 applications and 351 walk-ins for those 75 apartments. Yet, the 1994 funding level will only provide a new construction and service level of less than 9,000 units, which represents fewer than 18 units per congressional district.

The downward trend in availability of affordable housing units continues. As you know, the administration is proposing only \$150 million in fiscal year 1995, which will support approximately 1,100 units. We have been assured by the administration that this funding recommendation is not because the program is unworkable or inefficient or does not meet a critical need. In fact, Congresswoman Roybal-Allard, you heard Secretary Cisneros say, when you both were in Los Angeles, that the Section 202 Program was the finest housing program that HUD had.

Today I understand that he is testifying before the House Appropriations Subcommittee. He certainly has a difficult position of trying to justify the administration's budget recommendations for section 202, knowing the critical need and how well the 202 Program has worked.

Rather than cutting the program, AAHSA believes that the administration and Congress should be significantly increasing funds for supporting elderly housing as an investment to address long-term care needs of increasing numbers of frail elderly.

Naturally, we would like to go back to the days when there were 20,000 units authorized each year. However, at the very minimum, we support the subcommittee's bill to maintain funding for the program at the current level of 9,000 units.

In light of the critical shortage of affordable housing for the elderly, we would also urge that additional flexibility be allowed to the section 202 funding, specifically allowing Congress to allow options for section 202 funds to leverage other public and private resources to develop larger size, mixed-financed facilities.

We also support the funding level proposed in H.R. 3838 for section 811, as well as for the 5 percent set-aside for new construction and modernization of public housing facilities and for the administration's proposed 5,000 section 8 vouchers targeted toward persons with disabilities.

AAHSA supports efforts to expand mainstream housing choices for persons with disabilities by increasing the number of scattered site housing vouchers and group homes under public housing and the Section 811 Program.

My organization, the Retirement Housing Foundation, is currently involved in the Section 811 Program and has developed and operates housing for nonelderly persons with physical disabilities, the chronically mentally ill, and the developmentally disabled. Our experiences, as well as other AAHSA members, is that the Section 811 Program provides a needed housing option more in keeping with their age group.

AAHSA believes that enforcing fair housing requirements in public and private family housing settings will also help alleviate the significant shortage of housing opportunities for nonelderly persons with disabilities, and will help resolve the mixed population issue.

Another major concern outlined in our written testimony, is that we would like to see supportive services linked more frequently with elderly housing. The average age in federally assisted elderly housing is 78 years, with increasing numbers of persons in their late eighties and nineties.

We commend the chairman of the subcommittee for your earlier leadership in facilitating linkages of supportives services, particularly, with your actions to expand service coordinators in federally assisted housing.

AAHSA firmly believes that supportive housing for the elderly needs to be recognized as a vital part of health and long-term care reform policy and as a cost-effective strategy to develop community-based alternative living arrangements for frail elderly.

We recommend a series of actions to promote effective linkages of supportive services with elderly in housing. To expedite the development of effective models, we would also recommend a demonstration program, including co-location strategies.

We also support the authorization level provided in H.R. 3838 for an expansion of the Congregate Housing Services Program, commonly known as CHSP.

As our populations are aging, so are our buildings, and the physical plants of many facilities are in need of retrofitting and rehabilitation. In addition, many facilities need to be retrofitted in order to comply with the federally handicapped accessibility guidelines or safety requirements, including requirements under the Americans with Disabilities Act and section 504.

In our written testimony, we have identified a number of potential sources of funds to finance modernization and retrofitting for the needs of these older buildings, including actions to build up and access project reserve accounts, to modify and fund a new modernization and retrofit program, and to retain and access section 236 excess rents.

Our members are very concerned with the administration's proposed 18-month freeze on section 202 rent adjustments. We believe that this is unrealistic, particularly since we cannot control the costs like utilities and other costs which go into making up those rents. And so we urge Congress to reject this shortsighted proposal.

As I stated earlier, AAHSA applauds the subcommittee's efforts to solve the mixed-population problems through Title VI of the 1992 Housing Act. Unfortunately, we believe that many elderly housing projects with mixed populations will still have some difficulty.

We had hoped that the congressionally mandated HUD Occupancy Task Force would have provided additional guidance and clarification of occupancy criteria, including guidance for elderly only and mixed-population settings. However, from our perspective, the task force's final report failed to meet some of those needs. Because of our concerns, AAHSA was the only organization among the 34 members that did not endorse the task force final report.

Our letter to the task force explains our reason for that action, and we would request that it be made available to you and to the subcommittee to include it as part of our testimony.

AAHSA is concerned with the growing number of fair housing lawsuits and complaints being pursued against elderly housing providers. We believe that the increasing costs in time and money to nonprofit providers and to the Federal Government could be better spent on the projects and their residents instead of being wasted in defending elderly housing providers against complaints and suits, particularly when many times those complaints are frivolous or unwarranted.

We also would ask that HUD be allowed to provide early intervention in the complaint process to eliminate many of these minor and frivolous complaints. There is a need for effective and timely training for HUD staff, and providers of housing. AAHSA supports the administration's effort to reinvent HUD and to make it more streamlined and responsive to the constituents' need.

In closing, I would again like to express our willingness to work with you continually in addressing the needs of our Nation's seniors, nearly half being disabled themselves.

I have a petition which I am willing to share with you signed by more than 500 members of the Residents Club of Angelus Plaza, who took the initiative, after hearing Secretary Cisneros' address, to send this petition to him, expressing their concern that people on waiting lists might enjoy the same safe, secure, affordable housing that they enjoy.

We thank you for your work. We promise to work with you today and in the years to come.

[The prepared statement of Reverend Joseph can be found in the appendix.]

Chairman GONZALEZ. Thank you once again, Reverend, and your statement as you gave it to us will be in the record, including the charts and the statistics, which are very, very helpful.

Ms. Berenson.

**STATEMENT OF AIMEE R. BERENSON, LEGISLATIVE COUNSEL,
AIDS ACTION COUNCIL, WASHINGTON, DC**

Ms. BERENSON. Good afternoon. I want to first take the opportunity to thank the members of this subcommittee and Chairman Gonzalez in particular for your strong leadership on AIDS housing issues in the past, and for giving AIDS Action the opportunity to testify before you today about the crucial AIDS housing issues that we are facing.

Affordable, supported housing is crucial to preventing the early onset of illness and to maintaining the quality of life for HIV-positive individuals and their families. Yet, many people with AIDS still face illegal eviction from their homes when it is discovered

they have AIDS. Others lose their housing when, as a result of illness and lost wages, they are unable to pay their rent or mortgage. And a growing number of people with HIV and AIDS are already homeless when they become ill and find themselves shuffled between acute-care hospitals, medically unsafe shelter facilities, and the streets, at an enormous cost to their health and to the taxpayers.

Clearly, the lack of affordable supported housing for people living with HIV and AIDS in this country has become a crisis within the crisis of the epidemic itself.

In 1990, Congress took the first steps to address this crisis by passing the AIDS Housing Opportunities Act. AHOA empowers local communities to develop the most appropriate and effective housing strategies for their community members who have HIV and AIDS.

Communities may use AHOA funding for a broad range of housing, whatever is needed to meet the need, whether it be short-term supported housing, rental assistance in a supported setting, or community residences. AHOA funds are going to communities and States across the country, from New York to New Jersey, from Ohio to Minnesota, from Florida and Texas to California.

These funds allow States and localities to provide a continuum of housing for people living with HIV and AIDS, reducing unnecessary hospital costs and keeping people healthier and alive longer.

In 1995, at least 10 new jurisdictions will qualify for new grants based on the number of AIDS cases that they have.

We support H.R. 3838, which reauthorizes the AIDS Housing Opportunities Act. This program provides life-sustaining housing for people with HIV/AIDS and their families. It is exactly the kind of community-based, community-controlled, flexible formula grant program that should serve as a model for housing programs across this country.

We urge your support also for the community-generated and community-supported amendments to AHOA that are included in H.R. 3838, which will, among other things, allow up to 2 percent of the Projects of National Significance set-aside to be used for non-profit to nonprofit technical assistance. And, additionally, these amendments will improve the planning and application process for AHOA by requiring jurisdictions to include a wider range of service providers and HIV-affected individuals and communities in the planning process.

Last, we urge you to increase the authorization levels for this vitally important program. AHOA has been chronically underfunded. Since fiscal year 1992, the first year that funds were appropriated for this program, the number of cases of AIDS has more than doubled and the number of people living with HIV and AIDS who are at risk of homelessness or are already homeless has grown enormously.

We urge you to provide authorization levels of \$312 million and \$406 million respectively for the AHOA in fiscal years 1995 and 1996. We ask that you remember that those dollars may mean the difference between life and premature death for many people living with HIV and AIDS.

In addition to the AIDS Housing Opportunities Act reauthorization issues, I want to very briefly mention our concern about HUD's proposal to eliminate several other important programs serving special needs homeless in order to create the new "Homeless Assistance" Block Grant Program.

We have not had an opportunity to review the actual legislation from HUD regarding this proposal. We are concerned, however, that HUD's block grant approach fails to acknowledge the historic reality that special needs programs were created by Congress because existing local community Block Grant Programs were not serving special needs populations.

Therefore, we urge you to keep several vitally important questions in mind as you carefully examine HUD's legislative proposal.

First, do the changes proposed by HUD clearly and unequivocally require that funds be used to provide permanent, supportive housing for special needs populations, including people living with HIV and AIDS?

Second, does the legislation permit community-based nonprofits to apply for and administer grants?

Third, does the legislation provide enough flexibility with regard to activities that may be funded to ensure that a range of supportive housing options may be undertaken based on the needs of the community, while at the same time providing sufficient limits on activities to prevent funds from being used for swimming pools and golf courses rather than for housing for the homeless?

Fourth, are sufficient funding levels provided under the legislation to ensure that communities have the resources to plan and implement truly comprehensive and long-term housing strategies to address the homeless problem, and in particular, to address problems of homelessness among special needs populations?

Fifth, are there mechanisms to ensure that HUD will provide effective technical assistance, monitoring, oversight, and evaluation of community planning and implementation of the new program?

And last, when all is said and done, does HUD's legislation fulfill what has been the longstanding intent of Congress, to comprehensively address the housing crisis facing our Nation generally and the needs of the special populations homeless specifically, including people living with HIV and AIDS, needs which are currently addressed to some extent by programs like the Supportive Housing Program in the McKinney Act?

We believe the bottom line is this. The housing needs of special populations, including people living with HIV and AIDS, will only be addressed through specific legislative provisions and programs that create supportive housing programs geared to meet those needs. Broad block grant mandates to "serve the homeless, including special needs populations," will not work and are not acceptable.

As a final note, my written testimony addresses in detail our opposition to HUD's consolidated plan. This is the plan HUD has to consolidate the planning and application process for four formula grant programs: AHOA, ESG, HOME, and CDBG. Due to time constraints, I will not reiterate our concerns regarding that plan today. However, I urge you to note our opposition and I look forward to

being able to discuss this matter more fully with the members of this subcommittee later on.

This subcommittee has shown great leadership on AIDS housing issues. On behalf of AIDS Action and on behalf of people living with HIV and AIDS in this country, I thank you. We support the work you have done in H.R. 3838, and perhaps now more than ever, we are looking to you to protect what works, work with us to find out what doesn't, and build from there.

Thank you for giving me the time to express our concerns to you today.

[The prepared statement of Ms. Berenson can be found in the appendix.]

Chairman GONZALEZ. Thank you, Ms. Berenson, very much. I would like to state and have the record reveal that our good friend and most effective witness that has appeared before this subcommittee more than just today, Mr. Carranco from Laredo, with the American Association of Retired Persons, is retiring from the National Board of AARP in the near future. And he indicates this may be the last time he will be testifying in that capacity.

Well, we will bring you up here unofficially anyway. We will find your way to get your ticket up from Laredo.

But thank you very much for the work you have done on the board, and we are sorry to hear you are going to be leaving the membership of the board.

Mr. CARRANCO. Thank you very much, sir.

Chairman GONZALEZ. Reverend, very interesting in your testimony, you advocated leverages in section 202 funds to build additional affordable housing for mixed income communities. Would you enlarge a little bit on that? How would it work? How do you visualize it?

Reverend JOSEPH. We visualize the option for sponsors to use the 202 construction grant to attract other public or private funds to develop a larger facility. In this approach, only portions of the building would be financed by the section 202 funds which would be targeted to low-income elderly and the balance of the project would be financed with other resources. Of course, the units financed by section 202 would be mixed throughout the entire project.

All the units would be similar and all the people would be treated the same way so that those paying the market rate could not tell which units were subsidized and which were not.

Currently, the regulations for the Section 202 Program do not allow or discourage the mixing of income or the mixing of sources of funding. We would like to see the legislation changed to provide more flexibility and housing options. We believe it would be a cost-effective way to enable section 202 funding dollars to go further. In addition, this approach would also be able to provide affordable housing not only for the very low-income elderly, but also some low- and moderate-income elderly.

Chairman GONZALEZ. Also, in your testimony, with respect to 811, are you suggesting or recommending that section 811 funds be available as project-based assistance or tenant-based assistance?

Reverend JOSEPH. Both.

Chairman GONZALEZ. Both?

Reverend JOSEPH. Both, yes.

Chairman GONZALEZ. Depending on the needs of the community?

Reverend JOSEPH. Yes, depending on the needs of the local market and community, and also on the needs of the disabled person. I think that one of the unfortunate consequences that has happened in recent years as a result of the scarcity of funds is that we have various needy populations competing with one another over limited housing. In some cases, it would appear that the elderly are competing against the disabled. But this is a misperception.

While there are 43 million disabled persons, 33 percent of the 43 million are elderly, and half of the 30 million elderly in this country have some kind of disability. There is a need to expand housing choices for some nonelderly persons with disability in a group home or in family housing. However, for other younger disabled persons, their needs and their desires may be better met in a scattered site or voucher program to permit them to use the voucher throughout the community with any landlord who will accept it.

So I favor both a project-based and tenant-based Section 811 Program that is more reflective of their age group.

Chairman GONZALEZ. What would you think of public housing agencies being eligible sponsors for a project; that is, for developments, and nonprofits as eligible sponsors of section 811 tenant-based assistance?

Reverend JOSEPH. I think that would be fine if there were no other suitable non-profits in the local community that were effectively linked with other necessary supportive services. But, we believe that in most communities nonprofit organizations would be able to sponsor project-based, scattered sites or vouchers. For example, RHF sponsors several section 811 projects, usually with experienced cosponsors who have a proven track record in providing special services for chronically mentally ill or developmentally disabled. We serve as the cosponsor to develop and manage the property and they provide the supportive services programming.

So RHF would be interested in continuing to be a cosponsor of section 811 facilities. We believe that nonprofits or PHAs could administer tenant-based voucher programs. However, nonprofits would use primarily section 811 funds while PHAs would use section 8 funds.

I think it is important in the disability community to recognize that those who speak about the mixing of populations are not anti-disability. We provide services to disabled persons of all ages as well as to recognize their specific needs. Our contention, however, is that the needs of the individual and the kinds of services that they require are what need to be considered when determining the appropriate housing setting. Our experience indicates that housing needs of seniors are different than housing options for many non-elderly persons with disabilities.

Interestingly, last year one of my colleagues, who manages a number of elderly housing facilities in California, Carol Severin of Satellite Senior Homes, and I were both interviewed by CNN for a special television program on this issue. Carol was very much in favor of the mixing of these two populations. I was speaking on my belief and experience that the needs of the persons and the services that can be rendered by that manager or that facility are what

should determine if a resident is appropriate or inappropriate for a specific facility.

A couple of months ago, I had the opportunity to talk with Carol again and from her experience this past year with a couple of facilities that have a mixed population, she indicated that she now has completely reversed her position and now agrees, as I do, that the needs of the individual and their appropriateness for service now need to control where that person resides. For some it is appropriate. For others it is not.

Ms. ROLLASON. Mr. Chairman, if I may, certainly the disability community agrees with the Reverend that the needs of the individual need to be what drives where support services, if necessary, are delivered, along with the choice of the individual.

I think that where we might have a different way of delivering those services or in looking at that is that we would believe that the services should be able to go to where the individual is, and I think that for us, that is one of the things that within the administration's plan for long-term health care reform, was most exciting, because it was home and community-based, so that individuals would not need to leave their individual home to get the supportive services that they need.

And so our concern is that we want to make sure that option is preserved, that people have the right, the choice to choose to live by themselves or with one other person, maybe a family member, who can assist with those needs, and services are brought in.

Chairman GONZALEZ. I was going to ask for your comments, Mr. Carranco.

Mr. CARRANCO. This has nothing to do with what we are talking about. I want to tell you, it breaks my heart to say this, and to leave this room. I have 1 hour and 5 minutes to catch a plane.

Chairman GONZALEZ. Well, we better not hold you here. I hope it is at DC National and not Dulles.

Mr. CARRANCO. It is National.

Chairman GONZALEZ. OK. Well, thank you again, Mr. Carranco. We will submit whatever questions we have in writing to you.

Mr. CARRANCO. Thank you very much.

Chairman GONZALEZ. You need not expose yourself to missing that plane. And I wish you a safe trip back home. Do you have any comment on the leveraging of 202 funds, and more particularly, on the 811, that is, the question I directed about public housing agencies, sponsoring section 811 development and nonprofits.

Ms. ROLLASON. I am not sure I understand the rationale for public housing agencies administering it. In talking with other people I work with in the disability community, I haven't been able to get a solid understanding.

I think nonprofits have traditionally been able to cut red tape a whole lot easier and get housing on the streets where it is needed. It concerns me that we are adding another layer of government there unnecessarily.

Chairman GONZALEZ. We had testimony from either the fourth or the fifth panel, the public housing and national associations, and representatives from THAs, and they were all very concerned about the mixed population situation. The fact that they were afraid

HUD would be mandating them to house the very young or mentally disabled with the elderly in public housing.

I was just wondering, they seemed to be very much concerned and expressed opposition to the mixed population.

Now, what I don't know is whether HUD finally did develop their rules and regulations. I believe they have. And I don't know if you have any comment or are in a position to comment now.

Ms. ROLLASON. I would like for Ms. McGinley to comment on that.

Ms. MCGINLEY. I am Kathy McGinley, with the ARC Governmental Affairs Office.

I would like to say that HUD has put out their public housing regulations related to the designated housing. As far as I know, they have not yet published the ones related to assisted housing. I think they are still up here on the Hill.

One of the reasons why we made a major effort to try to avoid discussing the mixing issue in our testimony today is because we wanted to move on with the process and get beyond that.

One of the reasons I think that we would have concerns about having public housing agencies be section 811 sponsors is the fact that one of the reasons that they brought up during the whole mixing controversy was that they were really unable to provide the supportive services need, and section 811 is a supportive services program that nonprofits have been dealing with very well.

Chairman GONZALEZ. Very good.

Reverend JOSEPH. Mr. Chairman, if I might just clarify a little bit, I perhaps didn't understand completely your question earlier. Like my friend here, I believe that the section 811 can be better administered by the nonprofit than by the PHAs. But being a realist, I am not sure that we are going to be able to have the PHAs determine if you can do it.

What we are really speaking for is to permit the nonprofit to have a choice of providing expanded housing options through one of three kinds of section 811 housing settings. These are: Through group homes; through scattered sites; and/or through tenant-based vouchers, with the nonprofit having the option of doing one, two, or all three. A key for each of these housing options would be linked to the appropriate supportive services agencies which serve that particular type of person with a disability.

Chairman GONZALEZ. Ms. Berenson, I was quite distressed to hear your statement with respect to HUD's proposed consolidation plan, and particularly the application process, formula grant programs consolidation.

You state on page 8, "Moreover, in its consolidated plan, HUD has failed to undertake the logical and effective step of evaluating its current planning and coordinating requirements for special needs housing in general or for AIDS in particular.

"HUD already requires applicants for AIDS housing opportunities to submit planning documents, yet HUD has been unwilling or unable to provide us with information about what is in these applications or to evaluate or monitor implementation of these plans.

"Without this information, neither HUD nor Congress can truly assess what changes need to be made. HUD has made much of its community forums regarding this plan, many of which were re-

ported to be little more than dog and pony shows by the AIDS housing providers, advocates, and residents, who attended them.

"We have repeatedly voiced concerns about this plan and many of us have submitted written opposition to HUD's proposal to incorporate the AHOA into the consolidated plan.

"Unfortunately, HUD has failed to respond to our concerns. Now, HUD has announced it is not interested in receiving any further comments on the plan. I have been informed that as a result of HUD's position, several jurisdictions, including New York, are in the process of requesting waivers from HUD so that these jurisdictions will not be forced to include the aged in this consolidation."

I regret to hear that, but if those are the facts I think we have to confront them. I wanted to thank you for including your statistical charts, they are very helpful to me, and there will be some changes as of this fiscal year where there will be more jurisdictions, including my city, the third largest city in Texas, that come under the formula.

But this is disturbing. What do you believe is a reason for HUD's reluctance to address your petition or request?

Ms. BERENSON. Well, let me start out by saying that we have participated in many meetings with HUD, and really come into this process with an open mind. But it is like I used to say when I was a kid, your mind should never be so open that your brains fall out.

And this, unfortunately, is a situation where for reasons that are probably beyond my mind-reading capabilities, I believe that HUD thinks that it went into this process with the answer. And therefore, I don't think that there was much recognition of the great value that communities had to offer in terms of really having meaningful participation in the discussions and in helping HUD to frame the questions, and the answers, regarding what needs to be changed, what isn't working.

I think my testimony lays out the current concerns we have about incorporating AHOA into this consolidated plan. But I think we are becoming increasingly disturbed about HUD's decision-making process here. On a number of occasions not only have I personally requested information from HUD about what is contained in the planning documents submitted for AHOA recipients, but I know that a member of committee staff here personally made that request on my behalf as well, and we were never given that information.

You know, it may be that this information is in a huge box somewhere and nobody really knows what they say, or there may be some other reason that we are not able to get that information. Based on our own community work, we have recommended, and there are incorporated in H.R. 3838, some important amendments to the AHOA planning process which we think will greatly improve the community planning and input into how those funds are spent.

But beyond that, I think that until we have a sense of what is happening on the national level with regard to AHOA as a whole, there is more likelihood and a greater danger that this program and AIDS housing concerns overall will be diminished in this superconsolidated planning process than that they will be addressed more forthrightly and more comprehensively.

In particular, one of the things I note in my testimony that I would like to just quickly mention is the fact that the consolidated plans would have to be submitted for local legislative approval. And we are particularly concerned because people with AIDS face a lot of discrimination, and we are concerned that all of the issues of NIMBYism will come into play.

In particular, these concerns have been raised by people in the mayor's office in New York, who have spoken to me in the past week with regard to this plan.

Chairman GONZALEZ. Did I misunderstand you to say that HUD does not have to seek legislative approval, or did have to seek legislative approval?

Ms. BERENSON. I was referring to the understanding of the folks that I have spoken to that when a community completes its consolidated plan it must submit that plan for review and approval to the local legislative body, for example, in New York, to the New York City Council for local legislative review. So the local city council will have to review and approve this community consolidated plan.

And I think that is extremely problematic, because there are a lot of political pressures that are brought to bear in that context, which I think may undermine whatever work the community was doing on the consolidated plan.

Chairman GONZALEZ. Well, thank you very much for enlarging on that. You can rest assured we will express a concern.

Unless any of the witnesses has a question or some additional statement, I want to end up as I started, by thanking you very much for your patience. We will be in communication with you. Thank you, especially those of you who have traveled quite a distance to come here and testify.

The subcommittee will stand adjourned until further call of the chair.

[Whereupon, at 1:35 p.m., the hearing was adjourned, subject to the call of the Chair.]



**H.R. 3838; HOUSING AND COMMUNITY
DEVELOPMENT ACT OF 1994
(FEDERAL HOUSING ADMINISTRATION'S SINGLE AND
MULTIFAMILY PROGRAM INITIATIVES)**

THURSDAY, MAY 5, 1994

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING
AND COMMUNITY DEVELOPMENT,
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:57 a.m., in room 2128, Rayburn House Office Building, Hon. Henry B. Gonzalez [chairman of the subcommittee] presiding.

Present: Chairman Gonzalez, Representatives Waters, Klein, Gutierrez, Rush, Roybal-Allard, Barrett of Wisconsin, Watt, Lazio, and Pryce.

Also present: Representative LaFalce.

Chairman GONZALEZ. The subcommittee will please come to order.

Let me thank the witnesses right off the start for cooperating. This morning members will be coming in and out, but the House will begin its session at 11 o'clock and, therefore, we don't know what will happen after that, or if we will have some interruptions on recorded votes. In anticipation of that, I want to get started.

I want to thank the witnesses that gave us their prepared statements so that overnight we had a chance to look them over. They will be in the printed transcript of the record and the proceedings this morning exactly as you gave them to us in writing.

So I would urge the members of the first panel, if possible, to summarize as succinctly as possible, because we have two panels with a total of about ten witnesses. Usually what happens is that, through the fortuitous selection of who is going to be on the first panel, and who is going to be on the second, the second panel finds itself sitting here all morning long if we have an unusually prolonged first session, and it is not fair. So I would urge that all panelists do what they can.

This is the eighth hearing with respect to the need to reauthorize every one of the Federal assisted—so-called assisted housing programs or laws. Of course, they are under the jurisdiction of this subcommittee. That includes CDBG and everything else. So, therefore, it is a very important year. It also coincides with a very mixed-up year, not only on this side of the Capitol, but on the other side.

Therefore, we have targeted—at least I have—a markup date so that we can expedite the processes. And it is our hope that before the end of this month we will have completed the markup on the subcommittee as well as the full committee level. We will then proceed to see how we can get it out of the House so that, given some reasonable action on the Senate side, by the time the July break comes around we will have something, at least the extension of the laws. They will expire at the end of this fiscal year if we don't.

The fact is that in order to convey a legislative vehicle I introduced what is known as H.R. 3838. And we scripted bare essentials, maybe one or two consensual add-ons, that HUD or the administration has recommended.

We have, since last summer, passed out and, in fact, the President has signed into law six different measures that HUD said was necessary, and we agreed, in order to assist it with the proper and efficient administration of these programs, particularly those that we are reviewing this morning. I hope that the testimony this morning will address that.

I am going to ask that my full statement be in the record at this point. I can see the pressure not only on this administration but particularly this one, because of the budgetary straightjackets that the Congress has been operating with, as well as the executive branch, with respect to the Preservation Programs which I think will really be penny wise and pound foolish in the long run.

I think sooner or later the Congress is going to have to reassert itself as the national policymaking body. It has struggled to do so since the Nixon administration, because that was the first time it had to.

History will show that, since Franklin Roosevelt's regime, the Congresses have gotten used to reacting to the President or the administration's program, so that when President Nixon came aboard in 1969, he didn't have one, and the rest is history. But the Congress hasn't fully recuperated, and it is still the President proposes, Congress is supposed to dispose. But I think the need now is for the Congress, no matter what it takes, to reassert its constitutional responsibility of being the national policymaking body.

I think that the administration's proposals to limit section 8 annual adjustment factors and rents may be similar in effect as to pound foolish, penny wise, and also maybe raise some legal questions that we have been evaluating.

So, with that, I will recognize the gentleman from Illinois who was here at the very beginning, if he cares to make a short statement.

[The prepared statement of Mr. Gonzalez can be found in the appendix.]

Mr. GUTIERREZ. Yes, Mr. Chairman, I think I shall do that. Thank you very much.

Mr. Chairman, I hope that our witnesses can address the problem of expiring section 8 contracts. This is an issue that is of great concern, obviously, to the city of Chicago and across this country.

Additionally, the Secretary's proposal to raise the maximum dollar limitation for FHA single-family mortgages raises some serious concerns. I have no problem with this administration wanting to

include more people in the program. However, I want to make sure the inclusion does not preclude outreach to low-income individuals.

I am also very troubled by the administration's proposal with regard to LIHPRHA. I believe that, if enacted, these proposals could lead to wide-scale displacement of tenants and yet not result in any cost savings.

Chicago is the home to the very first building sold under this program, and the program has been tremendously beneficial in preserving critically needed, affordable housing in Chicago communities where low-income housing is in short supply due to great gentrification. Thus far, over 1,600 units of housing have been preserved in one area of the city alone, but if HUD's proposed decrease in Federal cost limit is adopted hundreds of units could be removed from the affordable housing inventory.

It would affect many buildings, including one where there is current negotiation going on in my district. This building, like many others under the program that was intended to be saved, may not be saved.

Therefore, I hope to work with HUD and with you, Mr. Chairman, as you address the issues. I coincide with your opinion that many of these programs, while they may look like cost savings, may cost a lot more to the citizens of this country in the long run. We need to preserve and look at cost-effective measures that preserve the value of low-income housing across this country.

So I would ask my colleagues to seriously look at the changes proposed by the administration. They could have an undue harm on many people who are going to need this program and the preservation of low-income housing.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Gutierrez can be found in the appendix.]

Chairman GONZALEZ. Thank you very much.

Mr. Klein.

Mr. KLEIN. Thank you very much, Mr. Chairman.

Mr. Chairman, as you know, I don't normally make opening statements because I believe it is important to move directly to the testimony of the witnesses, but I am going to deviate from that normal practice today because I have a very special interest in the FHA's Single-family Housing Program.

Next week, I will be introducing freestanding legislation to raise the FHA loan limits, simplify the method for calculating FHA downpayments and establish new partnerships with State agencies that will allow HUD to share risk with respect to loans exceeding the maximum loan limits. The legislation will be modeled after several of the FHA provisions contained in the administration's housing and community development reauthorization.

It is my intention to offer the text of my bill as an amendment to the committee print this subcommittee uses as its markup vehicle. As a Representative of the Eighth District in New Jersey, which is approximately 10 miles due west of New York City, I have a district in which housing costs and particularly single-family housing costs are very, very high.

This means that first-time home buyers in my district would qualify for a FHA loan up to the current \$151,000 loan limit. That

is not very much in north Jersey. And it really cuts many single-family home buyers, particularly first-time buyers, out of the market.

My bill, like the HUD proposal, would raise that limit to \$172,675. In my judgment, that is a very modest increase, given the high cost of housing in northern New Jersey.

Now, I have heard many of the concerns expressed in the past about raising the current FHA loan limit, and I hope today's hearing will help put some of those concerns to rest.

I certainly share the concern of my friend from Illinois regarding lower priced housing, but I don't see any reason why the availability of FHA funding for lower priced housing will suffer at all. Indeed, what this program would do would be to strengthen the overall FHA Single-family Housing Program, since the rate of good loans has been much higher in the higher range. And, in addition to that, the FHA fund right now is extremely solvent, and it is certainly capable of handling loans both in the lower end and in the higher end that would be included within my bill.

Mr. Chairman, I want to thank you and my distinguished colleague and friend from New Jersey, Mrs. Roukema, for agreeing to hold this hearing. I think this legislation is absolutely vital to the Nation, and I look forward to participating in the hearing and in the debate.

Thank you.

Chairman GONZALEZ. I wanted to acknowledge the presence of a new member on the committee of this Congress but one who has been very faithful in his attendance at these hearings. And I wanted to recognize the fact that that means a lot to me and the subcommittee. I recognize him at this point to introduce one of the witnesses or any remarks he may wish to make.

Mr. BARRETT. Thank you, Mr. Chairman.

Chairman GONZALEZ. Mr. Barrett of Wisconsin.

Mr. BARRETT. Thank you. And thank you also for holding this hearing. I think it is a good hearing.

Let me begin by stating that I applaud the Department. I think it has brought an enthusiasm to the housing industry and to the housing concerns of American citizens that has been missing for some time, and I think it is important that we have an administration that cares about the needs of the American people. I think it has reinvigorated a Department that, obviously, was under attack in the past, and I am very hopeful that we will continue to have that type of aggressive, optimistic display of work from the administration.

With respect to the legislation that we will be looking at today, I share many of the same concerns that my friend from Illinois has. I am concerned that some of the changes we are talking about, in particular with FHA loans, may have a negative impact on low- and moderate-income individuals. And I think we have to be careful as we craft this legislation that we do not exclude them or do not lessen their chances of being able to obtain adequate credit.

At the same time, I have another concern that some of these changes may, in effect, put the government in the marketplace where the private sector is working quite well right now.

I represent Milwaukee, Wisconsin, which is the home of MGIC Corp., and they are basically the lead train in the private insurance market. They have done a good job for many, many years. And, frankly, my concern is that we are going to be moving some jobs from places like Milwaukee to Washington, DC, if the government is going to take over and get more aggressive in some of these programs.

If the private sector is doing the job adequately, I think that the private sector should continue to do that job.

Having said that, it is my honor today to introduce Lou Zellner, the senior vice president for corporate planning, Mortgage Guarantee Insurance Co., in Milwaukee, Wisconsin. Lou is representing the Mortgage Insurance Companies of America.

I first met her when I was a freshman in the Wisconsin State Legislature and she was the deputy insurance commissioner at that time. She is now the most senior woman at the MGIC, as it is called, the company that founded the private mortgage insurance industry. And I am proud to have her here today.

Chairman GONZALEZ. Thank you very much, Mr. Congressman.

And we recognize at this point Chairman LaFalce, who has left his Committee on Small Business to introduce two constituents that he has on the panel.

Mr. LAFALCE. Thank you very much, Mr. Chairman.

The Committee on Small Business was supposed to have a markup session this morning, but we postponed it. Mr. Chairman, you realize what goes on when you postpone a committee. It means you don't have the vote. So you come back another day.

But I am delighted that that enabled me to be here this morning so that I could introduce two of my constituents, which clearly makes this one of the very best panels you have ever had, Mr. Chairman. My congratulations to you.

I have the distinct pleasure of representing Buffalo, portions of Buffalo, on the west and portions of Rochester on the east and everything in between, and we have brought west and east together today for this panel.

Representing the western portion of my district is Mr. Dennis Penman who, incidentally, is representing the National Association of Home Builders this morning.

Behind him is another distinguished constituent of mine from the Home Builders, Mr. Bob Banister, who is from Orleans County. He represents the middle of my congressional district. So, Bob, good seeing you here.

And from the eastern portion of my district, we have Mr. Steve Ames. He doesn't live in my district, but we forgive him for that. Besides, by the time of the next redistricting, my district will probably be extended to your home. And he is here representing today—Mr. Ashley—what did I say? Steve Ashley—

Mr. ASHLEY. Steve Ames has left, John.

Mr. LAFALCE. I know. He came back to the western portion—representing the Mortgage Bankers Association of America. And, of course, Steve is the president of the Mortgage Bankers Association of America.

And I promise you the next time I see Steve Ames I will introduce him as Ashley, OK?

Chairman GONZALEZ. Thank you very much, Mr. LaFalce.

The first witness that we have listed here is indeed Mr. Penman. And the order I have is Mr. Dennis Penman, Ms. Lou T. Zellner, Mr. Rick Adams, Mr. Stephen B. Ashley, and Ms. Gale Cincotta.

Unless there is some overriding reason some member of the panel has to get away, has a plane to catch, or something, we will follow that order and recognize Mr. Penman first.

Mr. Penman.

STATEMENT OF DENNIS PENMAN, MEMBER, FEDERAL GOVERNMENT AFFAIRS COMMITTEE, NATIONAL ASSOCIATION OF HOME BUILDERS, WASHINGTON, DC

Mr. PENMAN. Thank you, Mr. Chairman.

Chairman Gonzalez, my good friend and Congressman LaFalce, members of the subcommittee, I am Dennis Penman, a homebuilder in the Buffalo, New York, area.

The name of our company is M.J. Peterson Co. It is a fourth generation family homebuilder, and we have had a history throughout the 70-year life of our company of building low- and moderate-income entry level housing.

We also do FHA multifamily housing, and we are currently involved in a significant award winning urban revitalization project in the city of Buffalo, catering to low- and moderate-income first-time home buyers. And not only is it a homeownership program, but it has had a significant impact on the revitalization of the downtown Buffalo area.

On behalf of the more than 170,000 member firms of the National Association of Home Builders, I am grateful for the opportunity to appear here today on the questions of revitalizing the Federal Housing Administration. As a member of the National Association of Home Builders Federal Government Affairs Committee, its past chairman, a life director of NHP's board, I am well aware of the controversies that have surrounded the FHA Program in recent years.

Mr. Chairman, your commitment to affordable housing is not only well known but deeply appreciated, and I would like to thank you for calling these hearings as well as the recent hearings you called on the impact of lumber prices on affordable housing.

Our testimony today focuses only on the single-family provisions contained in the chairman's bill, H.R. 3838, and also the administration's bill, H.R. 4310.

Before I get into my prepared comments, I would also, on behalf of the Home Builders, like to wish you, Mr. Chairman, a belated happy birthday.

Chairman GONZALEZ. Thank you very much.

Mr. PENMAN. The proportion of households who own their own homes fell from 1980 to 1985. It remained stalled at around 64 percent for 7 years. This drop in homeownership rate had its greatest impact on young, first-time home buyers.

The 1993 annual homeownership rate of 64.5 percent is the first real increase in homeownership rates in 13 years. This 1.5 percentage point—the 1.5 percent decline in mortgage interest rates since early 1992 is credited as the largest contributor to this improvement in homeownership.

FHA activity as a percentage of the overall market declined over the past decade as well. The primary congressional concern for FHA since 1990 has been to increase their capital ratios.

Once the short-term congressionally mandated capital ratio of 1.25 percent is reached, however, we believe that the revitalization of FHA beyond the issue of fiscal soundness should be considered seriously.

While we strongly agree that the financial soundness of FHA's Mutual Mortgage Insurance Fund is of vital importance, so, too, is the Federal responsibility to encourage the availability of affordable housing for single-family home buyers.

The administration's authorization legislation, Housing Choice and Community Investment Act of 1994, H.R. 4310, contains several provisions to enhance and revitalize the Federal Housing Administration. These provisions, if enacted, would contribute greatly to returning FHA to its traditional role as an innovator and facilitator in the home buying market.

Additionally, streamlining the National Housing Trust Fund should be considered as well.

On the issue of the FHA section 203(b) mortgage limits, the administration proposes to set the maximum mortgage limit based on the average sales price data employed in the Mortgage Revenue Bond Program to be indexed on an annual basis. Such a proposal would reduce the number of areas in which HUD must establish separate FHA limits and would simplify the sales process for sellers, buyers, real estate agents, and lenders with respect to the different restrictions placed on the various government homeownership programs.

However, to maintain this consistency and simplicity, HUD should continue to use the FHFB/OTS data, along with the same formula for arriving at a single-family limit for an area or State, instead of the proposed updating method using an alternative index that is neither locality specific nor does it reflect the technological breakthroughs that we have had in housing the past few years.

For example, increased energy efficiency is found in many newer homes that was unavailable to consumers even 5 years ago. And while the initial cost may be higher for some of these devices and programs, the significant long-term energy savings are generally experienced by a homeowner. The CQI discounts these energy savings advancements.

With respect to the FHA high cost limits, the administration's bill proposes to increase this high housing cost area cap to 85 percent, \$172,675 of these limits. This cap would adjust annually.

Generally, this provision would allow home buyers in high housing cost areas to purchase homes closer to the central city, allowing many to live closer to the areas in which they work.

The issue arises as to whether the higher value mortgage would increase the risks to the FHA Mutual Mortgage Insurance Fund. Current data and higher value mortgages guaranteed by the VA, the Veterans Administration, does not give rise to this concern. In fact, data indicates that the higher value mortgages would enhance the fund's performance.

There are several charts in the printed testimony that verify and speak to this. Generally, the greater the mortgage amount guaranteed by the Veterans Affairs Department, the lower the foreclosure rate. The statement holds true for virtually every year of origination, regardless of the initial loan-to-value relationship.

These comparisons provide clear evidence that mortgages above the current FHA limit but under the maximum VA limit of \$184,000 perform better than the lesser value mortgages. Raising the FHA limit will improve the financial soundness of the fund by expanding the mortgages insured without increasing the risk of default.

The issue of whether higher value mortgages would result in decreased activity on lower value mortgages is not likely either, given the current Federal Fair Housing and Equal Opportunity and Community Reinvestment Act requirements, as well as the Home Mortgage Disclosures Act reporting statement.

I can tell you from our personal experience, being involved in center city activity in what were traditionally redlined areas, the CRA requirements that the local lenders have to deal with have taken them from being reluctant lenders to being lined up at our door in anticipation of having these loans in their mortgage portfolios.

And more than that, if you talk to the lenders in the Buffalo area who have lent in some of these areas, they will tell you it is one of the highest performing areas of their mortgage portfolio. NAHB strongly supports the inclusion of this provision in HUD's Reauthorization Act.

On the issue of FHA insurance for revitalization areas, the administration's bill proposes insuring authority, special financing terms targeted to first-time home buyers in revitalization areas that receive public and private investment for improvement. It defines these revitalization areas as empowerment zones and urban neighborhoods targeted by cities and counties for coordinated, affordable housing programs enhanced by supportive services.

Again, our experience with the participation of New York State Housing Finance Agency's Affordable Housing Corporation, piggy-backed with a very strong FHA Lending Program, shows that we can be successful in urban areas with this piggyback or tandem lending approach.

NAHB estimates that about three-quarters of a million renters who cannot afford a modestly priced home under the current FHA downpayment requirements would be able to afford to buy if this proposal is adopted. FHA would become an active partner with respect to encouraging viable, stable, and tax-revenue-producing neighborhoods.

Another issue included in the administration's request is single-family FHA risk sharing. While no similar provision exists for FHA single-family housing, a pilot risk-sharing program for FHA multi-family housing is contained in the Housing and Community Development Act of 1992.

The administration's bill proposes to provide single-family FHA credit enhancement through a risk-sharing arrangement with State and local housing agencies in limited areas where very high housing prices prevail.

Again, Mr. Chairman, NAHB strongly supports this provision and urges its adoption.

Another issue addressed by both H.R. 3838 and H.R. 4310 is the National Housing Trust Demonstration Act. The administration's bill, while supporting the concept of existing law, would eliminate the trust entity, along with its board of directors. Further, it proposes to increase the targeting restrictions to low- and moderate-income families by reducing the maximum income eligibility to 80 percent from 115 percent of the area median income.

We believe the current low income limit of 115 percent of the area median income is a sound policy. Families and individuals with incomes between 80 and 115 percent of the area median are equally in need of downpayment assistance as those below 80 percent.

According to the Census Bureau's study of affordable housing, 95.2 percent of all renters with incomes below 80 percent of the median income cannot afford to purchase a median priced home in their area, and 90.6 percent of all renters, less than 5 percent fewer renters, with incomes between 80 and 115 percent of median income cannot afford a modestly priced home are similar.

In conclusion, Mr. Chairman, the Federal role in facilitating homeownership for moderate-income Americans is longstanding. Likewise, the positive impact that homeownership plays in revitalizing our neighborhoods and communities is equally clear.

Again, I can relate to the Buffalo experience where the police call rate at one neighborhood is 75 percent of what it used to be, since 350 single-family homeowners have moved into what had predominately been an absentee landlord neighborhood.

What is not clear is the commitment that this Congress is willing to make in meeting this responsibility. No one would dispute the need for an actuarially sound FHA. We are also heartened that the forthcoming Price Waterhouse actuarial study for 1993 is expected to state that the short-term capital ratio has been achieved and that the long-term ratio of 2 percent will be achieved or exceeded by the year 2000.

Therefore, we strongly recommend moving to enhance FHA now. Not only is it a balanced approach for homeownership but also for fiscal responsibility. And it is also sound public policy. It would also go a long way toward returning FHA to its role as an innovator and facilitator of affordable homeownership opportunities without some fear restraining the competition.

This concludes my prepared testimony, and I would be happy to respond to any questions the subcommittee might have.

[The prepared statement of Mr. Penman can be found in the appendix.]

Chairman GONZALEZ. Thank you very much.

Ms. Zellner.

STATEMENT OF LOU T. ZELLNER, SENIOR VICE PRESIDENT, CORPORATE PLANNING, MORTGAGE GUARANTEE INSURANCE CO., ON BEHALF OF THE MORTGAGE INSURANCE COMPANIES OF AMERICA, WASHINGTON, DC

Ms. ZELLNER. Mr. Chairman, subcommittee members, Congressman Barrett has already introduced me, but I guess I could repeat

that I am Lou Zellner, senior vice president for corporate planning at Mortgage Guarantee Insurance Co., in Milwaukee, Wisconsin, and that I am here today on behalf of the Mortgage Insurance Companies of America. I am very pleased to have the opportunity to present our industry views on this important legislation.

MICA is very concerned with the administration's proposals regarding FHA. They will negatively affect lower income people and their communities. At the same time, the contingent liability of the Federal Government will increase significantly. FHA's administrative and financial systems are already ill-equipped to handle its current management responsibilities.

MICA strongly opposes five of the administration's proposals: First, the proposal to raise the base limit or floor; second, the proposal to raise FHA's high cost limit to \$172,675; third, the risk-sharing proposal, which will enable the Federal and State governments to insure loans up to \$203,150; fourth, the housing demonstration programs, which will enable FHA to partner with the GSEs and to insure risky alternative mortgage instruments; and, fifth, the Zero Downpayment Program.

The administration's proposals stand in stark contrast to the initiatives of the private mortgage insurance industry. Mortgage insurers have pioneered ways to target mortgage money to low-income families. Our most recent initiative is the 3 Percent Downpayment Program. An important factor is that these loans are targeted by income.

The administration, on the other hand, seems to be focusing on the wealthiest families. For example, to make payments on a \$170,000 loan, a family needs a \$71,000 annual income. But only the upper 13 percent of families earn \$70,000 or more. In Bridgeport, Connecticut, only 17 percent of families earn \$65,000 or more.

Even in high-cost areas like California, the administration's proposals will not help expand the base of homeownership. For example, median household income in the Los Angeles area is about \$37,000. The family with this income can only afford a \$92,000 mortgage, a mortgage well within existing FHA limits.

And there are many houses in southern California within the current FHA limits. Mr. Chairman, I recently read some ads from the real estate sections of newspapers in southern California, and there were many houses for sale at under \$150,000. I brought these along. I would be happy to leave them with you for you and your staff's review.

A recent GAO report indicated that FHA served a higher proportion of low- and moderate-income families in 1991. If true, this trend is most welcome. FHA should continue to be targeted toward these families and not to the high-income families who would be served under the administration's proposals.

The proposals will also hurt FHA financially. MICA's data show that on loans with low downpayments, claims rates are higher for larger loans. If FHA is allowed to provide 100 percent insurance on \$172,000 mortgages, its losses, we believe, will increase.

The proposals for risk sharing with State agencies and for housing demonstrations with the GSEs effectively eliminate the concept of risk sharing beyond Federal and State governments. They enable the GSEs to securitize loans with minimal risk of loss.

The conventional mortgage market has long recognized that it is essential that all parties to the mortgage have a stake in it. This is true risk sharing. If all parties—including the lender, insurer, investor, and borrower—share some portion of the risk of loss, then it is much more likely that borrowers are buying homes they will be able to keep.

The administration's proposals also expand the risk to American taxpayers. Three administration proposals will take FHA losses from the General Insurance Fund, which requires direct appropriations to make up for any shortfalls. Losses on the regular FHA-insured single-family loans must be funded from the Mutual Mortgage Insurance Fund, which, by law, must be actuarially sound. MICA questions the rationale to risk share with State agencies and to do alternative mortgage instruments under a program which could allow losses to be borne by taxpayers.

And the risk associated with the Zero Downpayment Program is more likely to destroy families and their neighborhoods than revitalize them.

The resources and capabilities of HUD and the FHA are already severely strained. How will it be possible for them to assume significant new responsibilities and safely implement these proposals? They do not have the ability to manage the increased contingent liabilities these proposals represent. The most recent inspector general report cites several systemic administrative and financial management problems which HUD must resolve.

In conclusion, there are three questions we need to ask and answer about these proposals:

First, to what extent do the proposals focus on extending homeownership to those not served in the marketplace? To what extent are you concerned about who is being served rather than who is serving them?

Second, are the proposals fiscally responsible? We think not. Three proposals look to the taxpayers to cover the losses through the General Insurance Fund.

And, third, does the agency have resources and capabilities to take on additional responsibilities? The HUD inspector general suggests no.

These proposals put the cart before the horse. Secretary Cisneros indicated that HUD will hold listening conferences next year to rethink the role of FHA. It seems reckless to be making sweeping changes to FHA and to increase the risk before their mission is clarified or redefined and appropriate management changes put into place. We urge Congress and this subcommittee to reject HUD's proposals.

Thank you, Mr. Chairman.

[The prepared statement of Ms. Zellner can be found in the appendix.]

Chairman GONZALEZ. Thanks very much.

Mr. Adams.

STATEMENT OF RICK ADAMS, VICE CHAIRMAN, PUBLIC POLICY COORDINATING COMMITTEE, NATIONAL ASSOCIATION OF REALTORS, WASHINGTON, DC

Mr. ADAMS. Mr. Chairman, members of the subcommittee, my name is Rick Adams, and I am a realtor from San Antonio, Texas, and vice chairman of the Public Policy Coordinating Committee of the National Association of Realtors. On behalf of the nearly 750,000 members in our association, I appreciate the opportunity to testify today on the FHA Single-family Housing Programs.

At the outset, Mr. Chairman, I would like to commend you and the subcommittee on your efforts to maintain the availability of Federal Government mortgage programs. These programs are vital to the American seeking the dream of homeownership, and we are grateful for your deep commitment to strengthening the Federal Government's role as a housing partner.

I must also State that we applaud HUD's pledge to improve the affordability of housing. We believe this goal will sharpen the focus of the Department and provide a higher level of service that will result in more homeownership opportunities.

The Housing and Community Development Act of 1994 and the Department's Housing Choice and Community Investment Act of 1994 are wide-ranging bills with a variety of housing-related proposals. Today, I would like to focus on the Federal Housing Administration's Single-family Mortgage Insurance Program.

Mr. Chairman, I would like to state up front that the FHA proposals in the Housing Choice and Community Investment Act will, without question, enhance the viability and accessibility of this program. The major impact the changes would have is to open up homeownership opportunities to families not served by conventional mortgage programs and who have no other home financing alternatives.

In reviewing the FHA proposals, it is important to draw a distinction between buyers who purchase using privately insured mortgages and those who use FHA. Our research continues to show that FHA's mortgage insurance programs typically serve buyers who have lower annual incomes, make smaller downpayments and purchase less expensive homes than those served by the conventional market.

As a result, FHA has proven to be a key financing tool for first-time home buyers—teachers, police officers, firefighters, postal workers—in short, America's mainstream workers who are trying to buy modest homes.

Mr. Chairman, we are fully aware that some private mortgage insurance companies have announced a willingness to insure low downpayment plans to help low- and moderate-income buyers purchase homes. In general, we applaud those efforts to open up homeownership opportunities. However, these programs must be placed in perspective. They are new and demonstration products that simply are not available in all markets. As a result, they lack the national reach of the FHA Program. This is an important and fundamental point that must not be overlooked.

I would like to now focus on specific FHA proposals contained in the administration's proposal.

The first provision I will discuss is a proposal to increase the FHA single-family mortgage insurance limits for high-cost areas to 85 percent of the Freddie Mac and Fannie Mae and conforming loan limit. Using this formula, the current FHA mortgage limit of \$151,750 would be increased to \$172,675.

NAR supports this proposal because it would expand FHA's reach by enabling more buyers to use the program in more areas. We have long contended FHA loan limits should be adjusted to reflect home prices in high-cost markets. When the limit is allowed to lapse and does not keep pace with home prices, FHA becomes virtually useless to those who need it. In other words, the program is available but not practical to use. We estimate that the increase proposed by HUD would permit approximately 276,000 additional families nationwide to use the FHA to purchase a home.

I also want to point out that the portfolio expansion and diversification resulting from this measure would prove beneficial to FHA's Mutual Mortgage Insurance Fund. By serving buyers in more areas, FHA would be less vulnerable to economic downturns in any single market or region.

In conjunction with raising the maximum mortgage insurance limit, HUD is also proposing to raise FHA's base insurance amount, which currently stands at \$67,500. The legislation provides for tying the base to local home prices, thereby making loan limits more closely tied to local housing market conditions and hence the needs of potential home buyers.

We feel an increase in the base would prove beneficial, and we applaud HUD's initiative. Questions remain unanswered, however, concerning the most appropriate basis for determining the loan limits in each area, as well as the index by which it will be adjusted annually.

NAR research shows that, as a conservative estimate, raising the base to 95 percent of the area median would permit more than 1.4 million additional families nationwide to be able to purchase a home using the FHA Program.

The impact of raising the base to 95 percent of the national median home price would be most dramatic in the Midwest and South, both of which contain housing that is generally less expensive than the highest priced markets. If the base limit were \$100,000, nearly 495,000 additional families would be able to use FHA in the Midwest, and nearly 656,000 additional families would be able to use the program in the South.

Next, I would like to touch on the proposal for the establishment of a program involving risk sharing of insured mortgages with State and local housing finance agencies. This would increase the availability of mortgage capital, no doubt.

We feel this would be an innovative way for FHA to enhance the efforts of housing finance agencies, without causing undue risk to FHA's insurance fund. Risk sharing will enable the States to creatively and innovatively address their affordable housing problems at only a small risk to the Federal Government.

The third measure I want to mention is a proposal to set up innovative housing demonstration programs using alternative mortgage instruments. This would be accomplished through partnerships with a variety of entities, including Fannie Mae, Freddie

Mac, the Federal home loan banks, and State and local housing finance agencies.

We are very pleased to see that HUD supports expanding the home loan products availability through FHA. By increasing mortgages choices, this proposal has the potential to improve housing affordability conditions for our Nation's households.

I also want to touch on the proposal for a no-downpayment FHA program, targeted to low-income families in renewal areas. This proposal merits careful consideration. We believe that by providing homeownership opportunities for families in these revitalization areas it would help them establish a stake in their communities and improve the lives of their families.

Mr. Chairman, I am going to switch gears now and talk about a modification we believe should be included in the legislation. We feel it is important to change the collection procedure for the mortgage insurance premium, or MIP. It now operates as a pay-in-advance method. We feel it should be reverted to a pay-as-you-go method.

I would like to provide some background on this recommendation. Considerable concern for the long-term financial viability of the Mutual Mortgage Insurance Fund arose at the end of the 1980's. We believe that FHA's financial problems were rooted in the conversion of FHA to an up-front premium in the early 1980's. Before that time, the agency had experienced nearly 50 years without losing money on the Single-family Mortgage Insurance Program.

We would suggest converting the MIP to an up-front, nonrefundable premium of 1 percent, with an annual renewal premium of 0.5 percent for the life of the loan. This would make the MIP collection procedure more equitable for all FHA users and would enhance the viability of the program for the future.

Mr. Chairman, I would like to take a moment to address another homeownership program that will be addressed in the Reauthorization bill, the National Homeownership Trust. As you know, NAR has long supported this program because we feel it would serve as an important financing tool for first-time home buyers. We applaud your efforts in having the Trust included in the 1990 Housing bill, and we commend the administration for requesting funding for this program in their 1995 fiscal year budget.

The National Homeownership Trust is a program worthy of funding, and we support the most flexible application of this program that is feasible. It would help many of America's first-time home buyers move up the housing ladder of opportunity. They deserve the chance of homeownership that could be provided by the Trust.

In closing, Mr. Chairman, I would like to underscore the National Association of Realtors' support for the FHA single-family proposals in the National Homeownership Trust. These measures are not window dressing. They have the potential to make the difference between buying a home or not buying.

We believe these proposals show that the administration has committed itself to being a catalyst in encouraging homeownership programs.

Of course, I stand ready to answer any questions you or any of the other subcommittee members may have. That concludes my remarks. Thank you.

[The prepared statement of Mr. Adams can be found in the appendix.]

Chairman GONZALEZ. Thank you very much, Mr. Adams. And I will reserve my introduction of you, being from San Antonio, until later.

Mr. Ashley.

STATEMENT OF STEPHEN B. ASHLEY, PRESIDENT, MORTGAGE BANKERS ASSOCIATION OF AMERICA, WASHINGTON, DC

Mr. ASHLEY. Chairman Gonzalez, Chairman LaFalce, other members of the subcommittee, it is a pleasure to be here speaking to you again this morning.

I am Steve Ashley, chairman and chief executive officer of Sibley Mortgage Corp., located in Rochester, New York. I am also currently serving as president of the Mortgage Bankers Association of America, and we appreciate the opportunity to comment on the 1994 proposals to reauthorize the FHA single-family and multifamily mortgage insurance programs.

Much of the rhetoric we hear today will focus on the proper role and mission of FHA. If you go back to its historical legislative origins, FHA was created: One, to stabilize housing markets during the depression; two, to experiment by introducing a new market product, the fully amortizing 30-year mortgage; and, three, to upgrade construction standards.

In terms of its original legislative purposes, FHA proved in the mid-1980's that it would stay in economically depressed regions. When private mortgage insurers withdrew from or tightened their underwriting standards in those regions, FHA not only remained in those areas but continued to use its nationwide underwriting standards and downpayment requirements in those areas, despite the higher risk of doing business there. FHA suffered losses as a result, but the fact remains that FHA stayed in those markets and preserved viable mortgage choices, helping to stabilize prices in those areas.

Texas was one of the economically devastated States in the mid-1980's. In Texas, FHA's market share grew from 7 percent in 1984 to 35 percent in 1987, while private mortgage insurance dropped from 44 percent to 10 percent of the market during the same time period. While FHA experienced losses in these areas, these expenses were covered by program revenues, and using the insurance principle of spreading risk, FHA has not cost the American taxpayer one cent.

FHA spearheaded the development of the 30-year fully amortizing mortgage, which is now the standard instrument.

More recently, FHA developed an adjustable mortgage program with rate adjustments limited to 1 percent per year, which protect the borrowers more than most adjustable products, which allow 2 percent adjustments.

Building codes and construction standards are significantly improved because of FHA's leading edge role. FHA has clearly served its original legislative purposes.

More recently, the debate has raged over what type of borrower FHA is supposed to be serving. Frankly, many of the arguments have implied constraints or limitations on the type of borrower that FHA is supposed to serve that simply are not supported by the program's legislative history. There is no legislative mandate for FHA to serve a certain class of borrowers.

Certainly, inferences can be derived as to what type of borrower FHA should attract from the type of loan FHA offers. There are no income limits, but the maximum mortgage purchase amount is limited to the bottom half of area sales prices. There is no first-time home buyer restriction, but during the last decade FHA, with its attractive low downpayment features, has served a large percentage of first-time home buyers.

FHA is vital to preserving mortgage credit opportunity and enhancing housing affordability for a spectrum of borrowers. We oppose any targeting by income, but it is clear from the recent GAO study, which is cited in our written testimony, that even without a legislative mandate to target a particular income group, FHA is clearly serving low- and moderate-income borrowers. The GAO study indicated that FHA was serving a higher proportion of low- and moderate-income families in 1991 than at any time in the preceding 20 years.

It is equally true that FHA is serving minority borrowers. The GAO report found that minorities made up a higher proportion of FHA borrowers than all U.S. borrowers for virtually all years between 1976 and 1991. Although GAO found that FHA originations in urban neighborhoods were less in 1991 than in the mid-1970's, its use in urban areas has steadily increased since the mid-1980's.

The most disturbing finding in the GAO study was that the number of FHA borrowers under 30 has been declining, even while service by the conventional market for that age group has remained steady. This is a key first-time home buyer group. We are very concerned that FHA's role in serving the needs of first-time home buyers is slipping. Although many of these borrowers are clearly middle-income borrowers, we believe that FHA plays an important role in making sure these people can make it onto the first rung of the homeownership ladder.

In the year before the premium was increased, almost 80 percent of FHA's borrowers were first-time home buyers. That number had dropped to 45 percent by the first quarter of 1993.

While my oral statement has not focused on the specifics of the housing reauthorization legislation that is before the subcommittee, I feel strongly that this subcommittee should focus on the various legitimate missions that the FHA of the 1990's and into the next century must serve.

Secretary Cisneros has sent a bill which includes proposals to expand homeownership through FHA for low- and moderate-income borrowers. This bill also seeks to expand opportunities for borrowers in high-cost areas, many of whom are first-time home buyers who need the low downpayment option and underwriting ratios that FHA offers.

Another important objective of HUD's package is to streamline the FHA Program. MBA agrees that the downpayment and mortgage amount formulas have become so complex that it is difficult

to explain the program to the public. While supporting continued safety and soundness, the program must be streamlined so that it is easier for borrowers to understand and is less complex for realtors and lenders.

MBA has included a number of specific comments and recommendations in our written testimony which we hope the members of the subcommittee will review and consider.

In closing, I would like to mention one concern that is affecting the FHA Multifamily Program. The budget rules require Congress to appropriate a credit subsidy to offset the potential risk of insuring a loan before it can be made. While this approach was adopted to limit potential risk to the Federal Government and impose financial discipline, it is having a somewhat perverse impact this year.

Many FHA multifamily borrowers cannot refinance their loans to take advantage of lower interest rates. Even though refinancing would lower the risk by reducing payments and not increase in any way the government's contingent liability, this opportunity is being lost because there is no available credit budget subsidy. MBA would like to work closely with this subcommittee to develop a solution to this problem, because it is definitely in the government's best interests to encourage rate reduction refinances.

Mr. Chairman, members of the subcommittee, we sincerely appreciate your willingness to listen both to our concerns and to solicit our opinions. We will be happy to work with you and the staff as you develop policies to guide the FHA Program through the balance of the 1990's. Thank you.

[The prepared statement of Mr. Ashley can be found in the appendix.]

Chairman GONZALEZ. Thank you very much, Mr. Ashley.

Ms. Cincotta.

STATEMENT OF GALE CINCOTTA, CHAIRPERSON, NATIONAL PEOPLE'S ACTION, CHICAGO, IL

Ms. CINCOTTA. Thank you very much, Mr. Chairman. I notice the time is close.

As chairperson of National People's Action, we had a conference here last month with over 1,000 people. But on short notice we do have representatives from cities across the country. I would like to acknowledge them: Cleveland; Harvey, Illinois; Des Plaines, Illinois; Cincinnati; Muskegon Heights, Michigan; San Antonio, Texas; Syracuse, New York; Chicago; and Pittsburgh. So on short notice they are able to come and join us and add their support, except for MICA, being the only ones who are opposing HUD's proposals.

In listening to the testimony of both the mortgage bankers and the realtors, I wanted to just show this chart that shows every time that you all raised the FHA limits, the amount of mortgages being at the lower end goes down and the interest by these folks goes only to the high end mortgages.

I wanted to also highlight the chart, to put maybe a human face on what happens with FHA, especially when nobody is watching the store, and when the limits go up, to just take the last 10 years of the FHA foreclosures. Foreclosures totaled 736,000. And that means that if there are four people per household almost 3 million

people lost their homes. In our neighborhoods, we see their belongings put out on the street—\$38 billion HUD paid in claims. That is another face of what happens with FHA in many of our neighborhoods.

The other thing I would like to really point out is that, last year, 52 percent of all the FHA mortgages that were made went to people buying their second home. They didn't go to first-time home buyers. It went to people buying their second home.

And in looking at some of the data of what the mortgage bankers would get in increased fees if the FHA loan limit goes to a \$172,600 limit, they could expect \$582 million in increased fees. And the realtors, through their fees, and so forth, could expect \$1.3 billion in extra fees.

So my curiosity here is how much of these folks who are very piously saying they want to help people into homeownership, they want to help first-time home buyers, are really talking about a jobs program and an increase in salary for their own industry? They are not in our neighborhoods all the time looking at what we have to. We have to try to clean up the mess year after year after year of these programs.

The other thing that I heard them say is putting down some of the conventional financing. I don't understand why the Federal Government, every time we work through CRA and through special programs, and get the private sector into the neighborhood, they want to go one step further. You can get a conventional loan at 5 percent down. You can get a conventional loan at 3 percent down. That is the newest program.

Why then when as soon as we get the conventional market coming to be able to fit the market's need, does HUD then do FHA one better and now propose zero percent down mortgages in the revitalization areas, especially that HUD has tagged the worst areas with the highest foreclosures? It seems to us that the government should not be competing with the conventional market, that the savings and loans and the banks and the mortgage bankers should be doing conventional loans. Could be that one of their reasons is that the mortgage bankers would have to have and the realtors would have to have a second look if they went to the conventional market and had an MI company insure them.

The way FHA is set up is the mortgage bankers do direct endorsement. They don't have to go to anybody for a second look. And that might account for the amount of foreclosures and the people put out on the street.

As I said, we want to express opposition: One, to increasing the FHA loan limits; two, to promoting the zero percent downpayment loans, especially in revitalization areas; three, no to permitting HUD and the State to finance and coinsure the State finance agencies and no to the housing demonstrations.

Even when they are dealing with the State finance agencies, what they are talking about is coinsuring the part that has increased from the FHA limits. So you, again, have FHA coming in and trying to go on to even the higher end, even the higher end of \$172,000. It is incredible that the Federal Government should be even involved in this.

And, again, unless it is a jobs program for realtors and mortgage bankers, I don't know what it is doing for low- and moderate-income neighborhoods—I know our neighborhoods on the west side of Chicago and the south side of Chicago, that year after year are devastated by these programs.

We would endorse the part of the National Homeownership Trust Fund demonstration where it would identify nonprofits who would work with people, with prepurchase and postpurchase counseling and hand holding, to get people to stay in their homes. And the groups here are representing nonprofits that have put hundreds upon hundreds of people in to reclaim vacant homes and kept them in their homes because they care. They are not in for the first minute, fast buck, get your money, run out and leave us.

And why we would let the Federal Government get involved with going even higher, higher end with State finance agencies, I don't know. I don't know.

Henry Cisneros, who came to our conference, said we are going to stop HUD from saying gotcha to you. We are going to change everything that anybody at HUD said we gotcha. Well, this to me says they got us. Gotcha again.

And I can't even imagine why—how this says we are going to stop the gotchas. Because this is really gotcha.

And I know my time is short, and I didn't realize Mr. Ashley was going to be here. But under Mr. Ashley's other hat as head of Sibley Mortgage, we have done statistics on the defaults of FHA by lenders and by cities.

In Rochester, New York, Sibley Mortgage Corp., leads in the amount of defaults and foreclosures in that city. Their defaults are 16.5 percent on their FHA mortgage—this is HUD's data, 25 percent, and on their foreclosures are 15.5 percent. I can see why Mr. Sibley wants to be guaranteed by the Federal Government 100 percent.

Thank you.

Not Mr. Sibley, Mr. Ashley for Sibley Mortgage, corrected.

[The prepared statement of Ms. Cincotta can be found in the appendix.]

Chairman GONZALEZ. Well, thank you very much.

And thank each and every one of you. I really can't say in words how helpful the testimony is.

I will have some questions that I will submit in writing, and I am asking unanimous consent that every other member of this subcommittee have the same privilege, and some indicated they will. You will get a copy of the transcript of the proceedings, and if you get the written questions directed to you in time, we will appreciate a reply to them.

[The questions referred to can be found in the appendix.]

Well, let me go back to Mr. Adams because, as you know, there are more than two, there are three Rick Adams involved in real estate in San Antonio. I don't know if you know that or not. I know that two of the three are not in my district.

We have been redistricted around in the county. My first 6 years here, the district was a whole county. I got elected countywide. And, since then, there have been several redistrictings.

But, in any event, I wanted to thank you for your testimony, Mr. Adams, and for representing your organization and coming all the way up here to testify.

There were two things that I wanted to note, because I have worked just as assiduously with respect to rural, as you know. And you make reference to section 502 of the Farmers Home Administration. This is generally overlooked, but we have just as many housing problems in the rural areas as we have in the dense urban ones. Maybe not, as you can't say the same after you visit some places in Brooklyn, some places here in DC, over on the other side of the expressway, and in Philadelphia and Chicago. But, comparatively, they are pretty bad.

So your referral to this National Affordable Housing Act and the subcommittee's approval of the Section 502 Guaranteed Loan Program to stimulate in the underserved areas and the fact that you have worked with the subcommittee and that it has enabled 22,000 new homeownerships is very satisfying to me. It, as you know, is an extremely low- and moderate-income targeted area. And I think the main thing is the percent of the interest rate.

And this is what I wanted to say, rather than devote too much time to, other than one question, because I am going to stick to the 5-minute rule.

As we sit here and as we have for the past, particularly the last 15 years, as a member of the overall Committee on Banking, I have been speaking forth on what today is now beginning to get at least some public newspaper attention. And that has to do with the basic fact that, as long as you have no stability in the financial markets, that means interest, we can flail all we want.

The American people are just confronted with a situation that no society in the written history of mankind has survived, tragically. That is the sad news. In fact, this morning's paper brought out the desperate efforts made unilaterally by Treasury, of all people, to intervene to support the value of the dollar. I have been warning about this, particularly since 1979. It is all in the record.

But I wanted you to know that that looms over our heads as an overall constant presence. It has been very difficult to try to bring to the level of consciousness of even Members of Congress the direct relationship, for instance, in the value of the dollar, which has eroded. The dollar has lost two-thirds of its value in the last 15 years to the Japanese yen and the German deutschemark. You can't do that and sustain it and endure.

The dollar, our stake in our government, our share, is that dollar note. That is our share, our stock. When that depreciates as it has and continues to do, we are all going to be sort of treading water. And it is reflected in these things.

This is the reason why, as of 1988, when I realized that the structures that had been constructed in the 1930's were collapsing, and finally they were visible—I had been saying that since the 1960's, that we were in a new world. That the structures, the basic structures, in fact, are still here with such things as regulatory setups.

In fact, the Office of the Comptroller of the Currency goes back to the Civil War, the National Currency Act of 1865, which, incidentally, gave birth to this subcommittee. It was after the passage

of that act that this subcommittee was formed. So there is a lot of history here that nobody wants to relate to our disaster.

I think we ought to keep in mind that, no matter what we do now, my attempt was to stabilize that and to try to figure a new framework of financial reference to make up for what was obviously the S&L and what is obviously going to be the rest of the associated structures that basically were built during the Depression and before the war.

On top of that, we have far more greater dangers that I have brought out in extensive special orders that nobody pays any attention to. I am always hoping that I am wrong, but, unfortunately, when I see today's front page news, I remember what I was saying in 1966. When the prime interest rate jumped up overnight 1 percentage point. So that, I think, we ought to keep in mind.

In all fairness to myself, I want to bring it to mind, because we can legislate here and we can set up these structures which I think eventually we will have to come to, such as the Trust. Other nations have. We are repeating what happened after World War I. You have tremendous housing projects and structures and have had since the 1970's in every other country, including Germany.

There was one thing I wanted to direct to you, though, Mr. Adams, and that was with respect to your recommendation to modify the current premium structure. That is very interesting to me. What other difficulties does the borrower face as a result of the way in which the program is structured?

And as a realtor in San Antonio, can you describe your firsthand experience with the program and your insights as to how the program may be expanded to serve more low- and moderate-income people in that area?

Mr. ADAMS. Let me take the first part of your question regarding the mortgage insurance premium.

From a borrower's perspective, it is just a minor component to our statement here. It has been very cumbersome and a slightly confusing method of calculating and then collecting a premium.

I think probably the more important component of our statement reflects the fact that, reverting back to a pay-as-you-go—when I first interviewed with the State in the early 1980's, that was the method by which the mortgage insurance was collected, as a pay-as-you-go process.

And I think that the problems we saw not only in our specific area, San Antonio, in the south with spiraling, depreciating real estate values, but that across a large part of the country, coupled with the fact that they went to an up-front type of mortgage insurance premium, I think added to the problems with the mortgage insurance fund, the Mutual Mortgage Insurance Fund that we saw. And everyone was made quite aware of it.

And, of course, as you know, the National Association of Realtors has a major research and economic component to the association—and what we have looked at is that, going back to more of a pay-as-you-go means of collecting that insurance fund, more matches and enhances the safety and the soundness of the mutual insurance fund.

I think that is probably the biggest part of the thrust we wanted to make.

Chairman GONZALEZ. I see. OK.

Ms. Cincotta, thank you very much for offering your testimony and, above all, bringing these fine people from throughout the country. To me, that is always very gratifying.

I think that has been the purpose since I have had anything to do with handling the gavel of this subcommittee since 1981, and that is to open these doors and these marble halls to the folks and not just those who are able to be in Washington day in and day out.

I will have some questions.

[The questions referred to can be found in the appendix.]

In the meanwhile, though, I think we might have some time, unless Mr. Klein is going to go register his vote. I think we have about, what—

Mr. KLEIN. I did want to vote, Mr. Chairman.

Chairman GONZALEZ. We will have a short recess to enable the members to record their vote. We will be back.

[Recess.]

Chairman GONZALEZ. The subcommittee will please come to order. The Chair will recognize Mr. Gutierrez.

Mr. GUTIERREZ. Mr. Chairman, I pass on any questions.

Chairman GONZALEZ. Pardon?

Mr. GUTIERREZ. I pass. I don't have any questions.

Chairman GONZALEZ. You don't have any questions?

Mr. GUTIERREZ. Not of this panel, Mr. Chairman. I have questions of the following panel.

Knowing the concerns of time, I would like to focus on that one. Thank you, Mr. Chairman.

Chairman GONZALEZ. All right. I am sure that Mr. Klein is on his way back.

The Chair will recognize Ms. Pryce. I know you just came aboard, but thank you very much. We welcome your presence. If you have any short statement or question you might want to ask.

Ms. PRYCE. I thank you, Mr. Chairman. I have nothing for this panel at the time.

Chairman GONZALEZ. All right, thank you.

While waiting for Mr. Klein, there was one point there, Mr. Ashley, in your statement. H.R. 3838 contains a provision for emergency foreclosure assistance. This is something I have been working on since 1983, but this is different from what we started out in 1983, and there is a history that I won't go into now.

Now this provision would provide temporary financial assistance for homeowners of non-FHA. We have had the TMAP since 1979 for FHA, as you know. Unfortunately, it wasn't until last year that we finally got HUD to make some use of that. But this would provide temporary financial assistance for the single-family non-FHA who are faced with foreclosure due to either involuntary unemployment or substantial loss of income.

Now despite the fact that the FHA high cost mortgage limits has been increased incrementally, you point out in your testimony that the FHA is presently serving a larger number of low- and moderate-income home buyers than high-income buyers. I wonder if you could provide the subcommittee with some additional insights or documentation or enlarge a little bit on that observation.

Mr. ASHLEY. Mr. Chairman, I believe that that is documented in the GAO report that has been issued on the FHA in the profile of the users of FHA. And that is the basis of my statement in the testimony.

Chairman GONZALEZ. Well, I know, but I don't know if the thrust of the GAO report was to that conclusion exactly. But, anyway, I understand what you are saying.

Now, one question for Mr. Penman. The often-heard allegation that homebuilders build to the limit of FHA—in other words, if the Congress does increase the limit, the price of new homes will increase to match that increase in the limit because homebuilders know that financing will be available under the FHA. How do you respond to that allegation?

Mr. PENMAN. Well, my experience for the past 20-some years in building houses in the Buffalo market is that the price of a home in any marketplace is market driven and not driven by the availability of mortgage insurance, that it is a competitive situation. It is an entrepreneurial business of men and women building houses and competing for product price and market share and that the market itself has a tendency to fix the price of homes and certainly not the limit of any mortgage insurance program.

Past that, it is, again, a market condition of the cost of land in a community. That certain areas, not just the price of the house, the product price of the house, but the combined price of the house and the land together, have a tendency to dictate what the price of the homes are going to be, based on availability and geographic location, you know, to areas of higher employment and so on and so forth.

I challenge anybody to support that with evidence, that increased FHA limits drive up the cost of housing. If anything, by expanding the availability of mortgages and expanding the market base, they probably have a tendency to stabilize housing prices.

Chairman GONZALEZ. Mr. Klein.

Mr. KLEIN. Thank you very much, Mr. Chairman.

First of all, I want to say to everybody on the panel and to those in the audience that, with the exception of the chairman, to whom I always defer for leadership, I am as committed to affordable housing and to low-cost housing as anybody in this Congress. And, certainly, any thoughts that we are expressing here today are not for the purpose of taking money away from lower cost housing but rather to expand the supply of money that is available for people in all brackets and particularly middle-income folks.

Mr. Penman, in your opinion, would the increase in the loan limit facilitate and expand the opportunity for new home construction in certain areas?

Mr. PENMAN. Yes, I certainly think it would. You know, I think when we look at the loan limits—and we have heard some testimony today with regard to first- or second-time home buyers and what the limit would be in terms of high-cost areas—I think we lose sight of the fact that we live in a very mobile society.

And if somebody sells a four-bedroom house in Buffalo, New York, for \$172,000, which is the current limit, and has to be relocated because of a job function into a higher cost area and still has the need for a four-bedroom house and they are comfortable that

they are an FHA-type purchaser, that this increase in the limit will allow those folks to continue to participate in the program.

Mr. KLEIN. Ms. Cincotta, I was a little puzzled by some of the comments in your testimony. You made mention of the foreclosure rate on FHA mortgages, and, obviously, I think all of us would like to see as few foreclosures as possible. And the object is always going to be to avoid foreclosures.

At the same time, it would seem to me that the folks you are talking about never would have had an opportunity to buy a home at all, and 90 percent of those people or whatever percentage who did not have foreclosures are enjoying the benefits of homeownership. What is wrong with that?

Ms. CINCOTTA. I think that one of the problems is that at the hearing today we are talking about FHA. And when you put into perspective what all the folks have done through CRA and the conventional market and having an option, what people were offered was—and we have some of the folks here—were offered first this block and then the next block and then the next block only and then the next block, with the realtors armed with FHA paper.

We are talking about discrimination and how realtors who racially segregated areas and racially segregated people used FHA paper and didn't necessarily offer options. So it is a broader problem than when we talk about just the FHA portion of it.

The community that I used to be president of the organization years ago, we had normally 30 realtors. We did a survey where 300 real estate companies doing business came into the neighborhoods—it was called block busting and panic peddling at that time. And they were using FHA paper, and people desperate for homes only had those next blocks to work on.

We never said kill FHA.

Mr. KLEIN. I would hope you don't say kill FHA, because, frequently, FHA has been the only game in town. For example, in some of the multifamily programs you couldn't get a mortgage if you didn't have FHA.

And while I haven't heard of some of the things that you are now talking about, it seems to me the remedy for those things is to deal with the problems rather than to throw the baby out with the bath water.

Let me just give you this scenario. Because, you know, what may be a low-cost home buyer in Kansas City, may not be a low-cost home buyer in northern New Jersey. The cost of homes varies enormously throughout the country. We have middle-income folks who are qualifying for FHA in some parts of the country, and the same middle-income folks can't qualify because they are frozen out of that market.

What do you do about the home buyer who qualifies for FHA, who wants to buy a home in northern New Jersey for \$170,000 and can't get that FHA mortgage and the alternative is either FHA mortgage or no homeownership? Would you deny that person homeownership?

Ms. CINCOTTA. No, the alternative is not FHA or no home. The alternative is to take that person to a bank or savings and loan or even to mortgage bankers, who do 65 percent of the conventional business, and let them get a 5 percent down conventional loan,

which is available. And now we are starting to have 3 percent down conventional loans available.

I would take that person to a conventional lender. At that income, to afford that house, they are a great prospect for a conventional loan, and what they are proposing is either FHA or nothing. That is not true.

Mr. KLEIN. No, no, nobody was proposing FHA or nothing.

But I will tell you that there are people who either go FHA or get nothing. And some of them are buying homes in the \$100,000 category, and they are qualifying for FHAs. But some of them are looking at homes at \$170,000, and, for them, they are frozen out of the market. And I don't want to freeze those people out of the market.

But I would suggest to you that if you look carefully at the program I think you are going to be convinced, as I am, that this is not going to take anything away from folks who are in the below \$150,000 category.

What it simply is going to do is to expand homeownership opportunities for a lot of folks that are presently being frozen out of the market. And what it is also going to do is increase the opportunities for home construction and increase the opportunities for jobs for a lot of people who are engaged in the construction industry who have been out of work for a long, long time.

Ms. CINCOTTA. Well, a lot of folks in our neighborhoods have been out of work a long, long time. And I wonder, sir, if we are saying there are no needs for banks and savings and loans and mortgage insurance companies in this country.

There are folks who are chartered to do this. It is very helpful to have a bank look and a savings and loan. The mortgage bankers do 65 percent of their business conventionally. Why wouldn't they take that same person you are talking about and put them in a conventional home if their credit, you know, fit the FHA and the bank?

Mr. KLEIN. Some of them don't think——

Ms. CINCOTTA. You know what it is? They don't want to do the wait for the first look and second look. They can endorse under FHA instead of having the bank look at them and also an MI company. Maybe they are doing a lot of those folks a disservice by us not getting those folks into the conventional market.

Chairman GONZALEZ. The time of the gentleman has expired.

The Chair will observe that we have another panel consisting of about the same number, and I would recognize those that have been here, and I think Mr. Watt has been sitting here through this panel and some have been here in the beginning and then left.

What I fear and what has happened on past occasions is that when members come in at the tail end of the questioning period and have missed the previous questions we have a tendency to repeat the question and thereby prolong it unnecessarily.

Mr. Watt, do you have any questions?

Mr. WATT. Thank you, Mr. Chairman.

I confess to having a great deal of ambivalence about this issue of raising the FHA limit, and that ambivalence is probably based on just lack of practical knowledge of the impact it would have. Could somebody help me understand what impact raising the limit

would have in North Carolina, which is where I would want to start from, at least, as a starting point.

Chairman GONZALEZ. Mr. Adams, do you have any—

Mr. ADAMS. Let me at least begin with that.

I think the whole concept of increasing the maximum mortgage limits is basically twofold, at least in my opinion. I am assuming that the market you are describing is a higher cost market because, quite honestly, I am not familiar with that. If it isn't, it probably wouldn't affect it.

Mr. WATT. Well, is a high-cost market defined statewide or is it defined by locality? I guess the question I am asking is, is North Carolina considered one market? Yes.

Mr. PENMAN. Congressman, the statistics that we—

Mr. WATT. Where are you looking? At something that we have?

Mr. PENMAN. No, it is not part of the testimony, but we can provide it to you for the record.

[The statistics referred to can be found in the appendix.]

North Carolina, specifically the number of housing starts projected in Asheville, North Carolina, with the increased limits, the increased number of starts would be 1,815.

Mr. WATT. I can't imagine that Asheville, North Carolina, would be a high-cost market. Assume that North Carolina is not a high-cost market. What impact would raising the limits have?

Mr. PENMAN. I think to look at the entirety is critical here, from the standpoint that in my comments earlier I told you that I concentrated a significant amount of my business in first-time home buyer low- and moderate-income families.

I can also tell you that 60 percent of the families who purchase my homes are African-American families. I can tell you that 20 percent are Spanish-speaking families who are living in the inner city. And I am extremely concerned about the viability of—

Mr. WATT. Mr. Penman, with respect, this is not a black and white question I am asking. I am asking about North Carolina.

Mr. PENMAN. No, I am trying to get to that. To the extent that FHA is a viable entity that causes families to be able to buy houses in North Carolina, that our statistics show that as the larger mortgages are allowed into this portfolio the foreclosure rate is lower on those loans than it is on some of the lower loans, and the lower dollar amount loans. So that, on balance, it gives the portfolio balance the entire insurance portfolio balance.

Mr. WATT. What do I care about portfolio balance? I mean, why is that a concern to me if my primary concern is getting people into the market and improving their opportunity to own a home? Why do I care about loan portfolio balance?

Mr. PENMAN. To the extent that the insurance fund—to the extent that it isn't a viable entity, to the extent that it has to be subsidized or supported by other means other than itself, it will affect its long-term viability.

Mr. ADAMS. Let me conclude, since I didn't finish the statement. And my colleague touched on the soundness of the fund.

But to answer your question directly, it probably may not affect your market specifically. But you have got to keep in mind that any type of insurance, if you can spread it across the widest base and enhance the soundness of that insurance fund, hence what we

are talking about, the mutual mortgage insurance fund, the viability of FHA as a whole remains much stronger.

Mr. WATT. Under that theory, why wouldn't you raise it to \$300,000 or \$400,000? I mean, there has got to be some reasonable limit here, I would assume. Maybe there shouldn't be any limit.

And if I follow your theory through that would be where I would end up, I think.

Mr. ADAMS. Well—and, quite honestly, I think what you are asking is delineating, first off, the high-cost areas and what index or indices is going to be used to determine that is still up for debate in the proposal. I don't think that has been decided yet. So those are absolutely valid concerns.

But, you know, I think, obviously, there is going to be some reasonable limitation placed there.

Ms. ZELLNER. Mr. Watt, if I just could—North Carolina is not a particularly high-cost area. In fact, the average price I believe in Raleigh, in the first 6 months of this year, was \$127,000. So increasing the high-cost limits will not affect North Carolina as far as I know.

Second, it certainly won't have any impact on the ability of low-income families to afford to buy a home.

And, finally, I respectfully disagree with my colleagues to the right and the left here in terms of the probability that people who buy lower priced houses are going to wind up with a foreclosure. Our experience as a mortgage insurance industry has not been that. In fact, it has been that higher priced houses are more likely to result in a claim than lower priced houses.

So we do not view that as a legitimate argument for expanding the limits. That has simply not been our experience, and, as you probably know, we have a lot more experience with some of the higher end than FHA has had, historically. So I think it is pretty good experience to base on.

Mr. WATT. Thank you, Mr. Chairman. I think that, at least, is clarified. I don't know that it has clarified my position on it, but it certainly has helped me to understand the arguments a little bit better.

Mr. Ashley had a—

Mr. ASHLEY. Yes, Mr. Chairman, if I may.

I think that where the Secretary's proposal might impact North Carolina is in section 302, which would amend the current law to allow the insurance up to the greater of \$67,500, or the average area purchase price under the mortgage revenue bond. And that would probably be where areas of North Carolina would be impacted the most under the proposal that Secretary Cisneros has offered.

Mr. WATT. That is whichever is higher or whichever is lower?

Mr. ASHLEY. Whichever is higher.

Mr. WATT. Thank you, Mr. Chairman.

I guess I should dissuade folks of the notion that my interest is only in North Carolina, but I at least like to start there and figure out what impact it has on that particular location and then work out to the larger, larger picture. I don't mean to suggest that I am not interested in Mr. Klein's area of New Jersey or certainly in

Maxine's area of Los Angeles. They have high, high-income houses out there, so I try to look out for them.

Chairman GONZALEZ. Well, thank you, Mr. Watt.

I also wanted to thank you for your very constant and loyal attendance at these hearings. I think your analytical mind and questions have been amply demonstrated. I want to thank you.

Mr. Barrett.

Mr. BARRETT. Thank you, Mr. Chairman.

I think we have explored quite well the question of the level of FHA funding. But for me, an equally fundamental question is what role the government should be playing and what role the private sector should be playing.

And maybe, Ms. Zellner, I will start with you. Why does raising the limit have a negative impact.

And then I will ask people who support this, where is the private market failing right now, and is it necessary for the government to come in?

Ms. ZELLNER. Let me first say that I think raising the limit would tend to change the focus of FHA. And I think that is a legitimate public policy question, whether or not that is an appropriate place for a government program to be focused, at the higher end of the market.

And an argument is often made that is needed to be done because of a so-called cross-subsidy. That is, people who buy higher priced houses have less tendency to default and have lower losses than people at the lower end. And yet our industry experience says that is not the case.

So, in fact, it may also raise some financial problems for FHA rather than help them meet the capital requirements that have already been laid out and which they have yet to meet. So I think that is also a concern.

And then, beyond that, I think you are alluding to another question about what is an appropriate balance between the public and the private sector. And, clearly, to the extent the private sector has stepped in to try to do the job and has done it well, we think that ought to be recognized.

We have, over the years, made it our business to serve people in the mortgage insurance industry who have only 5 or 10 percent to put down. And, traditionally, this has been people who are more likely to be first-time home buyers. It is something that we have done, we have run as a business and think have done fairly well.

We have also, over the last several years, tried to really expand the way we look at the base out there that we might serve. The 97 percent loan, I think, being the most recent example of our willingness, ability, and legitimate desire to stretch what we can do to try as the private sector to work with community groups and others to try to do a better job even in the future than we have in the past to meet these needs.

Mr. BARRETT. Let me ask maybe Mr. Penman or Mr. Adams—because I fully support doing whatever we can to encourage homeownership. And I think that, obviously, having more funds available could lead to greater homeownership. But, at the same time, I will ask you, where is the private market failing right now, for example, in the range that we are talking about today?

Mr. PENMAN. Well, my personal experience shows me that private mortgage insurers insure the funds of the New York State Housing Finance or the State of New York Mortgage Agency. They use private insurance.

And I can tell you that in low- and moderate-income buyers, my turn-down rate is two times what it is with FHA, with private mortgage insurance companies. That I think the expansion of the program into the higher cost areas and the balance of the fund to FHA, again, balances the fund, gives it the financial viability.

And it almost speaks to the issue of, you know, why should the private mortgage insurers be able to cherry-pick the top of the market while we have such a hard time getting private mortgage insurance in the inner-city areas? Why shouldn't FHA have that same opportunity to pick up some of those higher end mortgages with lower foreclosure rates to give them a balanced portfolio? Why should the government be forced to put themselves in a negative position while private industry goes to the top? Maybe we ought to look at CRA for mortgage issuers.

Mr. BARRETT. Mr. Adams.

Mr. ADAMS. And I can only reinforce that.

Again, coming from a market in Texas that only recently has started to rebound slightly, absolutely in the most serious part of the downward spiral, we saw a pulling back of the mortgage insurance companies. And I can't argue with the fact that they were losing considerable sums of money and they are in the business to make money and not to lose excessive amounts.

I think what we are talking about is maybe a fundamental mission difference between FHA and the private sector. Right now, again, the National Association of Realtors applauds the partnership that we are seeing with the private sector and, again, very recent low downpayment programs and initiatives that have been undertaken.

But the fact remains I think that if, in fact, the markets do turn, these companies that are profit maximizing, you know, may have to relook their position. They cannot go into a market and we cannot force them to go into a market and lose money. I think that is probably the fundamental difference in the arguments.

Mr. BARRETT. OK. Very quick question, Mr. Chairman, if I could. Maybe back to Mr. Penman.

If the problem is that the private mortgage insurance companies are cherry picking and not insuring as many of the lower income people around—I won't dispute that for the purposes of this question—wouldn't it be a better use of our time and resources to try to persuade them to deal with that problem than to expand the pie and take them out of what has been the traditional role of FHA financing?

Mr. PENMAN. Well, that would scare the hell out of me from the standpoint that we have a viable entity in FHA and they are already operating in those market places.

You know, I look at my experience over the past 10 years building in inner-city areas where we used to take a bank, kicking and screaming, into a neighborhood to make a loan, where now because of the requirements that they have they are anxious to lend in

those neighborhoods. And that is good. But it took us 10 years to get there.

I would hate to see FHA out of the market for 10 years while we convince private industry that they ought to be spending more time.

Mr. BARRETT. I don't think anybody was saying we ought to be taking FHA out of that market. It is a question of what new market they should go into.

And I realize my time is expired. Thank you.

Chairman GONZALEZ. Ms. Waters.

Ms. WATERS. Mr. Chairman, I thank you for giving me this opportunity to raise a question, despite the fact that I was on the tail end of this panel's testimony. I ask you to allow me to do this because it is very important for me to understand PMI.

The most complaints that I am getting from realtors, from everybody, is the fact that private mortgage insurance is not available and, therefore, low-income people are excluded from the possibility of homeownership because you will not insure those loans. The bankers are upset in my area. The real estate sales persons are upset.

And then I come and I quickly go through your testimony and I see all of these pronouncements about your concern for protecting the low-income people. What is wrong with this picture?

Ms. ZELLNER. First, Representative Waters, let me say that I believe 97 percent of the loans made in south central L.A. were conventional loans. So it is important to understand that the conventional market does serve many of the markets that you are concerned about.

Second, let me say that the private mortgage insurance industry has made a business out of helping people who have only 5 percent down and today only 3 percent down to buy houses. And we do that in the 3 percent program by trying to target that program by income where it is most needed. We think that is a good way to do it, that is the right way to do it, and we are committed and have been committed to undertaking those kinds of efforts.

Ms. WATERS. Then I think we should clarify what we mean when we throw around percentages. Ninety-seven percent of what?

Ms. ZELLNER. The conventional loans. That is, non-FHA, VA loans.

Ms. WATERS. Could you give us some idea of what that picture is? What are you talking about in terms of numbers? Ninety-seven percent of—

Ms. ZELLNER. Of how many loans?

Ms. WATERS. Yes.

Ms. ZELLNER. I don't know off the top of my head. I will be happy to provide that to you.

Ms. WATERS. Are you familiar with some of the HMDA data about the lack of loans in south central L.A. from your major institutions, from your banks? I mean, it is a dismal picture, so I don't know exactly what we are describing here.

Ms. ZELLNER. I would be happy to provide the information to you. I don't have it with me.

[The following information was subsequently received:]

According to the 1992 data collected under the Home Mortgage Disclosure Act there were 12,587 loans originated in South Central Los Angeles in 1992. The breakdown of those loans is as follows: 12,182 were conventional loans, 346 were FHA-insured loans, and 59 were VA-guaranteed loans.

Ms. WATERS. What is your opposition to no downpayments and lower downpayments that we are attempting to encourage by way of increasing homeownership?

As I understand it, there is data that indicates that people making lower downpayments are no more riskier than those who are making higher downpayments and that we should reduce the downpayment so that we can expand the market and get more people into homes because we have had criteria that has nothing to do with people's willingness and ability to repay their mortgages.

Ms. ZELLNER. That has not been our experience. The amount of the downpayment that is put down does have an impact on the probability those people will be able to keep the house.

I think the important thing is that we want to put, as I am sure you do, people into houses who have a good prospect of staying there.

Ms. WATERS. No, don't include me in what you want to do because you and I probably think a lot differently. When you give these broad statements about wanting to put people in who have the ability to pay, how I would assess that may be a little bit different than the way you would assess it. So speak for yourself and not for me, OK?

I have concerns about private mortgage insurance. I do want to follow up with this.

The biggest complaint that I am getting from the minority banks down there in particular, whether—I am talking about Broadway Federal. You know them all—Founders. If you know anything about south central Los Angeles, they complain about private mortgage insurance. And, recently, the realtors came to me and that was their biggest complaint.

So there may be something wrong with who you think you are as opposed to what a lot of people have discovered about who you really are.

Ms. ZELLNER. Let me just say, on the 97 percent of the loans in south central L.A. being conventional loans, that is the 1992 HMDA data.

Ms. WATERS. Yes, but it doesn't mean anything to me.

And perhaps I am not clarifying to you. If we had 300 loans in south central Los Angeles, 97 percent, I mean, of 300 loans, it does not represent very much. If, in fact, the private mortgage insurance had been available, maybe we would have had 600 loans. That is all I am trying to explain to you.

Thank you, Mr. Chairman.

Chairman GONZALEZ. Ms. Waters, what about all these ads I see on TV about Fannie Mae?

Ms. WATERS. What about them?

Chairman GONZALEZ. You have seen the ads, haven't you?

Ms. WATERS. I don't know that I have.

Chairman GONZALEZ. Oh, my gosh, don't tell me you don't watch TV.

Ms. WATERS. Very seldom.

Chairman GONZALEZ. I watch very little, but I have been impressed by Fannie Mae's—and then it says we don't make direct loans to home buyers, but we make the money available to the mortgage bankers so you can—

Ms. WATERS. Well, let me just say this—and this is kind of a broad statement. While I see testimony from everybody about concerns about the minority community, the African-American community, I am just amazed that everybody is so concerned because the mortgages are not being made. The insurance is not being provided.

What we have for the most part are many communities that are redlined, literally, by everybody. And we have people who work every day and who can afford to own their own homes with a little help and a little assistance.

Right now, as far as I am concerned, most in this industry are not doing their job. I am appreciative for those who do a little bit more than some of the others, but the overall picture is shameful, period, Mr. Chairman.

Chairman GONZALEZ. Thank you very much.

Mr. Rush, I was going to ask you to introduce Ms. Cincotta, but that has already been done. But we will recognize you now for questions.

Mr. RUSH. Mr. Chairman, in the interest of time and because I was late getting to the meeting this morning, I will submit my questions in writing to you, and maybe we can get the answers directed to me in writing.

Chairman GONZALEZ. All right. Well, thank you very much.

[The questions referred to can be found in the appendix.]

And I want to thank the witnesses once again, as we started out. And we will proceed to recognize the second panel.

[Recess.]

Chairman GONZALEZ. The subcommittee will please come to order. We are actually running against time because there is no telling when we will get a recorded vote.

The second panel, I want to thank each and every one of you again for your patience and, above all, responding to our invitation. This is a very important hearing, and it is most important to us who are trying to shape this extension legislation.

Will the persons leaving the room please—please do so expeditiously and as noiselessly as possible?

Our first witness is Mr. Michael Bodaken, who is the president and the executive director of the National Housing Trust based here in DC; Mr. John K. McIlwain, president of the National Housing Conference; Mr. Karl Smith, executive director of the Pennsylvania Housing Finance Agency, on behalf of the National Council of State Housing Agencies; and Mr. David Houze, the vice president of the National Assisted Housing Management Association of Alexandria.

And, without any further ado, we will recognize Mr. Bodaken.

STATEMENT OF MICHAEL BODAKEN, PRESIDENT AND EXECUTIVE DIRECTOR, NATIONAL HOUSING TRUST, WASHINGTON, DC

Mr. BODAKEN. Mr. Chairman, thank you. You are the first person in Washington who correctly pronounced my last name.

My name is Michael Bodaken, and thank you for giving, Mr. Chairman and members of the subcommittee, the National Housing Trust an opportunity to testify in today's important hearing. We are a national nonprofit organization founded in 1986, dedicated exclusively to the preservation of federally financed, affordable housing.

Our board includes housing professionals, nonprofit advocates, owners, resident advocates, and technical assistance providers. We provide technical assistance to community-based organizations who seek to finance and purchase federally financed housing.

In the interest of time, I will summarize my prepared testimony and request that my full statement be included in the record.

Chairman GONZALEZ. Yes. Will you yield to me to say that each one of you that has given us your written testimony—and I wanted to thank you for that, too. We have had a chance to look it over and it will be in the record exactly as you have given it to us.

Mr. BODAKEN. Thank you, Mr. Chairman.

My testimony addresses the administration's proposals to change the 1990 Preservation Act, Cranston-Gonzalez Affordable Housing Act, which is set forth in section 501 of proposed H.R. 4310.

It is the Trust's position that these, quote, miscellaneous, unquote, amendments to LIHPRHA will really cause the most valuable properties of this portfolio to be lost, and the cost savings will be minimal, if any. These program reforms are not grounded in the real experience of those of us who know the program.

And, finally, all these proposals have been recently considered and rejected by this Congress.

LIHPRHA was, as you know, a hard fought and difficult process. Congress acted to preserve 460,000 units of affordable housing, averting massive displacement of low-income people and loss of housing stock. After a difficult test of legislative will, a consensus emerged, and we have four concrete results.

Number one, we have averted the loss of that housing, and we maintained it as affordable for its permanent life.

Number two, we preserved the economically mixed and racially mixed housing that exists in this portfolio, a point that I will address later.

Number three, there is a repair program of this housing, 20-year-old housing stock, that otherwise would not be in place.

And, finally, we are able to compensate owners fairly so that we can introduce a new set of owners to these housing units.

HUD's proposals are four: Number one, to reduce the Federal cost standard from 120 percent of FMR to 100 percent of FMR; number two, to eliminate the Mandatory Sales Program; number three, to reduce the appraised value for sales to market rate residential, instead of highest and best use; and, number four, to eliminate the Homeownership Program.

Today's testimony is heard at a particularly auspicious moment in the history of this program. The program got off to a bumpy

start, but today some 800 projects are participating in LIHPRHA. They cover the waterfront—47 States. I will be talking specifically about certain States today, but 47 States are now impacted, and about 1,000 more owners will participate between now and the time the program is ending.

Over 80,000 families are now in the process of preservation. Their housing is being preserved by the program, and they are in the pipeline of being transferred to either nonprofit owners or their owners are staying in, recapitalizing and keeping this housing as affordable for its useful life.

It is important to remember that the original legislation was put in place to preserve these high-cost properties, these most valuable properties, because they were in decent shape, they were sometimes in neighborhoods that were integrated, and, as we will discuss, they often had economic mix.

As I state in my written testimony, I applaud the administration for its focus on its fair housing issues, but this particular proposal cuts at the heart of a fair housing issue that is important to all of us. It is important to have a mobility strategy. There is no question about that. But where you have economically and racially mixed projects in this country and a program designed to help preserve those properties, it is important that we maintain that program.

I don't believe, frankly, that HUD, Office of Housing, with which the Trust has a very good relationship, has really put these proposals forward seriously. They are, in fact, proposals that were part of the previous administration. As we will discuss, there is no particular cost savings designed in the program. And HUD has asked the Trust and we will be holding hearings to try to redesign the program for true cost savings.

Let's talk about the results of what HUD's proposal would be to the average person.

The Federal cost limits, as I mentioned, are currently set at 120 percent of FMR. That test was added precisely because not every fair market rent reflects the true value of properties. And it was understood after a lot of economic modeling that it was important to try to provide enough value to the properties so that we could save them.

The combined impact of the reduction of the Federal cost limits and the elimination of the Mandatory Sales Program will be massive prepayments of this housing stock by owners.

I have attached two tables to my testimony. The first is by an owners group, Recapitalization Advisers. It is attached as exhibit B to my testimony.

Recap Advisers advises owners of this housing stock. And what was startling was we had always assumed that, well, it only affects California, it only affects Illinois, it only affects New York, it only affects those kinds of areas.

Of the 58 transactions that this company has handled so far, 34 percent of the properties exceed Federal cost limits in Kentucky, in Minnesota, in Idaho, in Iowa, in Illinois, in New York, Massachusetts, and in California, across the board, there is going to be a major prepayment crisis in this country if HUD's proposal were enacted.

Now what about California? According to the California Housing Partnership Corp., 43 percent of the properties that are eligible for this program would no longer be eligible under HUD's proposals. It is important to understand that the combined impact—by reducing the cost and eliminating the sales program, owners will have no choice but to prepay.

That will result in two things. We will lose the housing stock, and, second, residents will be forced from their homes.

Now, I wanted to focus on the State of Illinois, particularly, here today. The federally financed lakefront properties in Chicago have been called the fertile crescent preservation. And at least two projects in Illinois would not have been preserved had HUD's proposal been enacted last year, as was proposed.

One, the Carmen Marine project, is one that Congressman Yates is familiar with as a resident homeownership project, and it would have exceeded the proposal that HUD puts forth today. HUD has heralded that project, as you know, as a model for economic homeownership, and it is one that we should all admire.

In Congressman Rush's district, Lake Village East, 218 units located on the lakefront at 47th and Lake Park, has already been appraised in excess of the HUD's limits and would be, in fact, not feasible or jeopardized by this proposal.

In Congressman Roybal-Allard's district, there are 25 such projects. I do not know how many of them would be impacted because I haven't had a chance to analyze, but there are 25 projects.

In Congresswoman Water's district, there are five projects that are eligible for this program.

We, again, have not had a chance to analyze the impact, but it is important that you understand that this proposal is widespread, it is significant, and, as I will say in a minute, will not accomplish any true cost savings.

The program provides—and this is something HUD ignored in its proposals—that there are vouchers and certificates provided to people when an owner prepays. As I think I just amply demonstrated, a third of the owners would probably prepay across the Nation if this proposal was adopted.

Why would that be a problem for the Federal Government? Well, let me explain.

Any displaced residents would be entitled to certificates and vouchers under the program. If you look at the congressional justifications provided by HUD for its 1995 legislation, you will find that over the next 5 years HUD has asked you to appropriate \$5,700 per unit per year for vouchers. In the 20,000 units that HUD has preserved already under this program, the average cost per unit per year is \$600 less. It is \$5,100 per unit per year.

So I think it is fair to say that the cost savings proposed, which are admittedly—and HUD would admit they are not great—I don't believe exist at all. And perhaps I am missing something, but I think the cost savings are speculative.

Now what should be done? It is important to understand that LIHPRHA is far from perfect. It does need to be streamlined. There are ways to improve the program.

HUD has asked the National Housing Trust, and we have agreed to provide workshops with owners, residents, technical assistance

providers, nonprofits, State, and local housing agencies to put together under a big tent all of the providers to come up with program reforms.

We have already held two meetings here in Washington. We are holding a meeting in Los Angeles in June, a meeting in Chicago in July and a meeting in Boston in July. And we hope to bring proposals to you, true cost-saving proposals, in the near term.

A lot of the proposals that we are talking about really will substantially reduce the cost and maintain the economic and racial mix of these properties. The proposal before you does not. And I would hope that, as you have last year and the year before, you will reject the proposals put forward by the administration.

Thanks very much.

[The prepared statement of Mr. Bodaken can be found in the appendix.]

Chairman GONZALEZ. Thank you.

The Chair will recognize at this point—and ask the indulgence of the others—the gentle lady, colleague, Ms. Pryce. She is going to have to leave, but she also has a constituent here, a witness, Mr. Houze, and we were going to ask her to present him in a more formal way than I did.

Ms. Pryce.

Ms. PRYCE. Thank you very much, Mr. Chairman. I appreciate your indulgence, and I want to thank you for holding this hearing today on these very important issues.

In addition, I look forward to hearing the testimony of Mr. David Houze, a constituent of mine from Columbus, Ohio. Mr. Houze is the owner and president of both Wayne Builders Corp., and Broad Street Management, Inc., and has continued to specialize in the development, construction, and long-term management of real estate projects, especially assisted multifamily housing.

Mr. Houze is active in and has been president of the Columbus, Ohio, Apartment Association, and is a vice president of the National Assisted Housing Management Association.

Mr. Chairman, I want to welcome Mr. Houze to the subcommittee, and, again, I look forward to listening to his testimony, and I am certain that the other members present will enjoy it. Thank you for the opportunity.

Chairman GONZALEZ. Thank you very much. I apologize for my having slipped up.

Mr. McIlwain.

STATEMENT OF JOHN K. McILWAIN, PRESIDENT, NATIONAL HOUSING CONFERENCE, WASHINGTON, DC

Mr. McILWAIN. Thank you, Mr. Chairman.

Mr. Chairman, members of the subcommittee, my name is John McIlwain, and I am president of the National Housing Conference.

The National Housing Conference was formed in 1931 at the time when many of the major structures of our housing finance system were not yet in place. NHC was one of the promoters of the Federal Housing Administration and the U.S. Housing Act of 1937 and since that time has been an active promoter of affordable housing for all Americans.

On behalf of the National Housing Conference, I would like to congratulate you, Mr. Chairman, on the work that you and this fine subcommittee have done over the years, and I recognize the importance of your remarks at the beginning of these hearings with regard to the central role that this subcommittee plays in formulating national housing policy.

Chairman GONZALEZ. I thank you very much.

And if you will yield, I want to evoke the memory of one of your—I guess he was a founder and FHA commissioner, Phil Brownstein. And I think we ought to evoke his memory, because in my mind he stands out as one of the leaders in having inaugurated and proceeded to maintain FHA as a viable program. And that leader is a very important leader of your group.

So thank you for having yielded to me to make that observation.

Mr. MCILWAIN. Well, thank you very much for those comments. Mr. Brownstein is definitely an honored and esteemed organizer and leader of this organization. He is a remarkable, remarkable person.

I would like to start by saying that Secretary Henry Cisneros has done a remarkable job in bringing vitality and openness to the Department of Housing and Urban Development. The relationship which the National Housing Conference has had with Mr. Cisneros' outstanding team has been excellent, and we are excited by many of the proposals that he has been bringing forth. In fact, much of what is included in his legislation, we endorse.

There are some things, of course, which we don't. We have some disagreements with the Department, a few of which I will mention to you in a few minutes. But the commitment to revitalize the Federal Housing Administration, particularly with regard to its multifamily housing programs, we feel is extremely important.

In particular, the partnerships that the Federal Housing Administration is now forming with State housing agencies, with Fannie Mae, Freddie Mac, and in the future we hope with major financial institutions in this country, to provide risk sharing for multifamily housing insurance, we think is critical for several reasons.

One is the Federal Housing Administration does not today have the staff to underwrite multifamily loans at the volume that is required in this country to provide capital to the multifamily housing industry. Working with State housing finance agencies, with Fannie Mae, with Freddie Mac, and with the leaders of the private finance industry, we believe that FHA can, in fact, resume its critical role in multifamily housing finance.

I would note that a few weeks ago the Massachusetts Housing Finance Agency signed an important cooperative agreement with the Department of Housing and Urban Development to take over the management of HUD-owned multifamily properties in the city of Boston and to work with the residents of those properties to develop plans of disposition for those in a way that HUD has been unable to do for many, many years. We see this as a start of what will hopefully be a critical trend in the future.

I would like to turn the remainder of my remarks to the section 8 inventory and, in particular, the inventory of newly constructed and substantially rehabilitated properties around the country. There are some 940,000 units of housing subsidized by the Depart-

ment through the Section 8 New Construction and Substantial Rehabilitation Programs. That inventory is occupied by residents who are among the lowest income people in this country.

We understand that the average income of these residents is below 20 percent of the median income in their areas, and so this housing is an invaluable resource. It is a resource which I am afraid in today's budget environment cannot be replaced.

We are, as you know, coming to a point where the housing assistance payment contracts between the Department and the owners of this housing are about to begin terminating. In fact, starting in 1995, contracts that have run for 20 years will begin to expire.

Because the owners will have to give notice to the tenants 1 year in advance if they do not have a plan in place to continue those contracts, notices will begin to be delivered to some residents within months in many jurisdictions. Because of this, the Department of Housing and Urban Development requested that the National Housing Conference pull together a task force, similar to the one that Mr. Bodaken was talking about with regard to LIHPRHA.

Starting last November, we brought together a group of participants spanning the spectrum of stakeholders, if you will, in section 8. Of course, we had owners and financiers, but, more importantly, we had public officials, tenants and tenant advocates, the nonprofit community, and others, to sit hour after hour to come to a consensus to the extent that we could. A list of participants is appended to our written testimony.

And on most points we came to a consensus, on some we did not, on what needed to be done. That consensus is contained in a report which has been submitted to your staff for review.

NHC held hearings in San Francisco, in Chicago, in New York, and in Boston at which we had, again, representatives of residents, low-income advocates, owners, managers, and public agencies, to talk about the findings that had been put together in our initial report.

We have also prepared proposed legislation which I would add is very much a work in progress. But we have submitted that to your subcommittee in the hope that it will assist your deliberations in the coming months.

I would also like to acknowledge the work of Congressman Kennedy and his staff in assisting us in this regard.

We have reached out and had cooperation from many, many people.

All of us who studied the problem came to the conclusion that this issue must be addressed soon.

I would like to make one additional comment. We find the proposal of the Department to limit section 8 rents, in the matter proposed, quite bizarre. We are confident that your subcommittee will do the right thing in that regard.

I will be happy to take questions orally or in writing as you choose, sir. Thank you.

[The prepared statement of Mr. McIlwain can be found in the appendix.]

Chairman GONZALEZ. Thank you very much.

Mr. Smith.

STATEMENT OF KARL SMITH, EXECUTIVE DIRECTOR, PENNSYLVANIA HOUSING FINANCE AGENCY, ON BEHALF OF THE NATIONAL COUNCIL OF STATE HOUSING AGENCIES, WASHINGTON, DC

Mr. SMITH. Thank you. Good morning. I am pleased to testify this morning.

My name is Karl Smith, and I am executive director of the Pennsylvania Housing Finance Agency, here representing the National Council of State Housing Agencies.

I would like to make three points this morning.

First, HUD has taken an important step toward revitalizing FHA multifamily insurance by quickly implementing the HFA Risk-sharing Program.

Second, we commend HUD for its efforts to expand the availability of FHA single-family insurance. We want to work with the subcommittee to make sure that HUD's proposals offer the greatest possible help to lower income home buyers.

And, third, Congress should again reject HUD's proposal to reduce the Federal cost limits for the Preservation Program and instruct HUD to delegate processing and projects to qualified HFAs.

I also want to thank the subcommittee for acting quickly this year to pass the Multifamily Property Disposition bill. In addition to speeding disposition of HUD-owned multifamily properties, this bill makes important improvements to HOME and to other programs.

On the multifamily housing initiatives, we applaud HUD for quickly implementing the FHA multifamily risk sharing with State and local HFAs. Last month, HUD approved 28 State and 5 local HFAs, including the Pennsylvania HFA, to participate in this program. All States who applied were approved.

In Pennsylvania, we will use the program primarily to rehabilitate existing apartments and extend their useful life as lower income developments. We will also insure mortgages supporting tax credit projects, which often have difficulty securing financing.

We recommend that you authorize risk sharing as a permanent program. The cap on the number of units that may be insured under it should be removed. The cap was imposed because the former administration opposed the Risk-sharing Program and insisted on limiting it. Such an arbitrary limit is unnecessary. It will delay or even prevent production of needed, affordable housing. In Pennsylvania, for example, we were entitled to only 1,155 units this year.

Now on to the FHA single-family proposal.

HFAs also have a substantial stake in the availability and affordability of FHA single-family mortgage insurance. According to NCSHA's 1992 survey, 44 States relied on FHA to insure some portion of their MRB loans. Of those, 29 reported that 70 percent or more of their MRB loans were insured by FHA.

This subcommittee took important action in 1990 to ensure that the FHA mutual mortgage insurance fund remains sound and able to carry out its public purpose. We understand that HUD is meeting the capital targets you have set for the fund.

We support the steps HUD took last March to make FHA mortgages more affordable and more competitive with private mortgage

insurance. HUD lowered the up-front premiums and made administrative changes in the 203(k) Program to speed up loan processing and expand the list of eligible repairs.

Based on our initial reading, we have the following comments on the FHA single-family proposals included in HUD's new legislation.

On increasing the mortgage insurance limits, for instance, increasing the FHA single-family mortgage insurance limits will assist home buyers in high-cost areas for which the limits now are too low. This increase will also assist home buyers in areas which do not qualify as high cost but for which the average area purchase price is higher than \$67,500.

HUD's proposal to replace the \$67,500 limit with the average area purchase price limit determined for the MRP Program seems reasonable. It will help many States. There may be cases, however, where this is not sufficient. We are looking at this now, and we will let you know quickly if we have any alternate suggestions.

The subcommittee should be aware that there are serious problems with the MRB purchase price limits. First, HUD is chronically late in updating them. The last time these limits were published was in April 1992. That is over 2 years ago.

The other problem with the purchase price limits is that the data they are derived from is incomplete. This data is collected by the Federal Housing Finance Board from a voluntary survey of lenders. It does not include all lenders, and many lenders report irregularly. The survey only covers loans closed in the first 5 days of the month, even though a much higher proportion of home loans closed are at the end of the month.

It is not unusual for data for metropolitan statistical areas to be so incomplete that the MSA is wrapped in with non-MSAs. This means that the limit in some MSAs is lower than the actual median purchase price of the area. That is a problem.

To ensure that they have accurate limits set in a timely manner, several States, including Pennsylvania, would like to have the option of determining the average area purchase prices themselves.

On the No-downpayment Program for revitalization areas, NCSHA supports HUD's proposal to create a No-downpayment Program for first-time home buyers. However, we urge the subcommittee to consider that the need for such a program extends well beyond narrowly defined revitalization areas. At a minimum, the definition of eligible areas should be expanded.

The insurance authority for the initiative should be available in any Federal, State, or local revitalization area. Fifty percent of the initiative should not be limited, as HUD proposes, to Federal and State-approved empowerment zones and enterprise communities.

On the high cost area Risk-sharing Program, we support HUD's proposal to develop a Risk-sharing Program with State and local agencies to ensure programs in high cost areas. The median home price in certain markets is far above the maximum loan amount insurable under FHA, even with the increase HUD is proposing.

We would like to work with the subcommittee to ensure that HFAs can participate effectively in this program. We are concerned, for example, that HUD is proposing that the HFA's underwriting standards be subject to HUD review. Under the Multifamily Risk-sharing Program, HFAs which take on a high proportion

of risk may utilize their own underwriting practices without HUD review.

We support HUD's request for authority to develop demonstration programs to test alternative mortgage instruments and new partnerships with such entities as HFAs and government-sponsored entities.

Turning to the Preservation Program, NCSHA strongly opposes HUD's proposal to weaken it by reducing the Federal cost limits to 100 percent of fair market rents. Each year, OMB and HUD proposes this amendment, and each year Congress rejects it. We encourage you to reject it again. This proposal is made worse by HUD's related proposal to eliminate the mandatory sales process and the special grant fund reserved for projects that exceed the limits.

These proposals will allow a large number of properties to fall out of the low-income inventory. This is a problem not only in high cost areas but in other areas where the FMRs are lower than rents in a neighborhood. Substituting tenant-based assistance cannot make up for the loss of projects from the inventory, nor should Congress attempt to shift the cost of this Federal responsibility to State and local governments, as HUD proposes.

We are concerned that HUD's preservation process is still very slow. The backlog of projects awaiting processing is growing. We are still trying to convince HUD to speed the process by moving forward on Congress' mandate that HUD delegate authority for processing preservation projects to those HFAs able and willing to do so.

With its severe staffing constraints, HUD may never be able to fully implement the Preservation Program without this assistance. We urge you not to approve any cut in the authorization level for this program.

Although it has had a slow start due to its extremely complex statutory and regulatory framework, hundreds of project owners have now filed notices of intent to seek preservation incentives or sell their properties subject to these restrictions. HUD has not yet made public any analysis proving its claims that funds already appropriated for this program are sufficient to last through fiscal year 1995. In the absence of such a study, we are asking the Appropriations Committee to reject HUD's proposal to zero out the program in fiscal 1995.

In conclusion, we commend HUD for its effort to revitalize the FHA Single and Multifamily Mortgage Insurance Programs and preserve at-risk affordable housing. We will continue to work with HUD and with this subcommittee to make those programs widely available and affordable to low-income people.

Thank you, sir.

[The prepared statement of Mr. Smith can be found in the appendix.]

Chairman GONZALEZ. Thank you, Mr. Smith.

Mr. Houze.

STATEMENT OF DAVID W. HOUZE, VICE PRESIDENT, NATIONAL ASSISTED HOUSING MANAGEMENT ASSOCIATION, ALEXANDRIA, VA

Mr. HOUZE. Thank you, Mr. Chairman. I would like to thank Representative Pryce for those kind introductions.

Mr. Chairman and ladies and gentlemen, I appear before you on behalf of my colleagues in the assisted housing management industry. I represent the National Assisted Housing Management Association. We call that NAHMA.

My name is David Houze, and I am president and CEO of Broad Street Management of Columbus, Ohio, and vice president of NAHMA. I would like to thank the chairman and members of this subcommittee and the staff for the opportunity to appear before you today.

I am going to speak of a few issues of concern, and I will also define a vision of assisted housing in this country which we call communities of quality.

For the period of the past few years, NAHMA has worked hard to define and articulate a vision for assisted housing in the country. That vision is called communities of quality.

NAHMA's vision of communities of quality is based on three primary principles: One, achieving high maintenance standards in each apartment and replacing aging components as they become dysfunctional; two, cost-effective management by energetic, knowledgeable, private sector individuals who follow sound financial practices and comply with the regulations; three, working together with residents, managers can help to locate existing community services at minimum cost in such areas as education, child development, preventive health care, recreation, job skill development, cooperative purchasing, crime prevention, and antidrug initiatives.

The list of success stories is endless. It is our belief that professional property management is essential to achieving a high quality of life in assisted communities. We believe the tools and resources necessary to maintain this stock must be the foundation upon which the housing policies are based.

Programs that seek to sustain an irreplaceable resource in this country for low-income people must have equal footing with those programs which seek to add to the inventory.

Mr. Chairman, I would compliment you and this subcommittee and Secretary Cisneros on the recent passage of the property disposition legislation.

That legislation contained thoughtful provisions which can foster communities of quality across this Nation. The Housing Choice and Community Investment Act of 1994 proposed by the administration contains numerous provisions that impact assisted housing. We assume that this subcommittee will be crafting legislation which takes into consideration the recently introduced legislation and the remaining elements of H.R. 3838.

We have only recently received the full text of this legislation and are now in the process of reviewing it.

Mr. Chairman, on behalf of NAHMA I would like the record to reflect our intention to submit to this subcommittee detailed comments on those aspects of the legislation which most impact the assisted management industry.

Among the provisions that we will look closely at are the anticrime provisions in the bill; provisions of the legislation dealing with the fostering of economic opportunity for residents and the Resident Management/Tenant Opportunity Program; the need to expand the Section 811 Rental Assistance Program for persons with disabilities; and the support of funding for housing for the elderly.

We are pleased that those items are contained in that legislation.

We have devoted a major portion of its resources to promotion of training and education with respect to fair housing and section 504 and will review the provisions of Title VI in the bill which relate to such matters.

We will comment specifically on the Metropolitan Area-Wide Strategy Demonstration Program.

Finally, we will review closely the present situations of Title VIII of the proposed legislation which seeks to provide management reforms under programs critical to our communities. In order to make communities of quality a reality, the Housing Choice and Community Investment Act of 1994 must address three issues: Renewal of the expiring section 8 new construction and substantial rehab contracts; it must include significant assisted housing funding under the COMPAC Program to fight drug-related crime; and further the discussion and opportunity to better link housing and services in assisted housing.

NAHMA has consistently spoken out on the danger and violence connected to the trafficking of illegal drugs in and around assisted housing. NAHMA seeks to broaden the base of Operation Safe Home by coming forward with a crime prevention strategy areas concept with HUD and our friends at the U.S. Conference of Mayors.

NAHMA endorses the inclusion of assisted housing in the COMPAC Program on a permanent basis and seeks authorization of up to 10 percent of the funds appropriated under that program upon passage of this legislation.

We have also consistently supported service coordinators for multifamily programs and see this as another essential ingredient in developing communities of quality.

The administration also proposes changes to the LIHPRHA Preservation Program purportedly as cost-saving measures. NAHMA believes that the proposed changes would in fact produce no meaningful savings and we urge you to reject the proposed program changes, particularly the proposed reduction in Federal cost limits from 120 to 100 percent.

At the heart of our concern with respect to the long-term viability of communities of quality, Mr. Chairman, we would like to focus attention today upon the need to address perhaps the greatest housing challenge to confront us for the remainder of this decade, that being the renewal of section 8 contracts.

NAHMA applauds the proactive steps taken by the administration in cooperation with the broad-based task force convened at HUD's request by the National Housing Conference. I was privileged to be a member of that task force convened by NHC to address the issue.

Prior to this effort, NAHMA members have been extensively engaged in a study and analysis of the issue for well over a year.

On behalf of our members, some of whom face expiration of their current contracts in fiscal 1995, I offer the following comments to outline the basic principles on which our position is based.

One, contracts should be renewed at the owners option on a voluntary basis and not as a mandatory policy. All contracts should be renewed for a minimum of 5 years and be renewable for up to four consecutive terms.

The existing contracts should be renewed under one of three proposed methodologies we have defined as status quo, budget-based, and market rate.

Each methodology is spelled out in detail in a position paper we have developed on this subject which, without objection, Mr. Chairman, I would like to submit for the record at this time.

Chairman GONZALEZ. Without objection.

[The information referred to can be found in the appendix.]

Mr. HOUZE. I will briefly highlight the characteristics of each of these methodologies for your benefit today.

Status quo: We propose that properties where the current rents are reasonable and which are viable at those rents renew on substantially the same terms as the expiring contract.

Budget based: We propose that properties which are not viable at market rents have their rents determined according to the net expenses, debt service, and fair return.

Under the market rate method, we propose that properties which could maintain or increase their rents upon expiration of the contract renew at market rents.

NAHMA has been in communication with both the administration and our colleagues in the industry on this matter. NAHMA and the National Leased Housing Association, of which I am also a member, are in virtual agreement in the approach we present to you today.

Much of what we present is also consistent with the recommendations of the broad-based task force convened by the National Housing Conference.

In closing, on this issue let me simply urge that we marshal our resources to address this problem now. We recommend that in doing so you take into account the need to give residents significant advance notice of contract expiration together with definitive information on contract renewal; adequately protect residents against unwarranted and unwanted displacement; make effective use of limited Federal resources; and preserve as much of this housing as possible for continued use by low- and moderate-income Americans and do so in such a way that is consistent with creating and maintaining communities of quality.

We also realize that you will be interested in more efficiently utilizing project resources. In this regard please know that NAHMA supports the creative refinancing of existing project mortgages and the use of the resulting savings in project-based assistance for preservation activities. NAHMA supports the use of current and future residual receipts funds for preservation activities. NAHMA supports efforts to leverage the limited HUD funds through changes in the Federal Income Tax Code to promote preservation activities.

While we recognize it is not within the jurisdiction of this subcommittee to act on tax-related matters, we do wish to bring the following to your attention.

After the initial commitment to renew, if the government fails to renew, continue or provide subsequent subsidy, NAHMA believes all favored gains, which are termed "phantom income" or "recapture" should not be taxable.

During the renewal contract period, paper gains should not be taxable and the only reportable income would be that represented by distributed cash-flow.

Owners of expiring use properties are very concerned about the potential income tax problems should they decide to continue the property as low income.

Mr. Chairman, I would like to conclude my remarks with the following additional observations.

The HUD flexible subsidy known as Flex has been a political football, but is a valuable preservation tool. We urge that you reject efforts to reduce funding for Flex, which is necessary to assist communities of quality and the people who reside in those communities.

We urge that you communicate with your colleagues on the Appropriations Committee in support of necessary funding under the section 8 amendments line item to provide resources to support valid, approvable rent increases for additional security for properties in drug and crime-impacted areas.

In this regard, we would like to point out that in 1990 the committee authorized these rent increases. Today, 4 years later, we have still not seen regulations or funding to support your intentions. We do wish, however, to compliment Assistant Secretary Retsinas and Deputy Secretary Helen Dunlop on the recent progress they have made to move this issue forward.

We also urge you to resist efforts intended as cost savings to limit or curtail necessary adjustments to section 8 contracts using AAF. And, as well, reduce over time the current number of LMSA units which have been added to keep assisted housing communities. LMSA should not be lost on the basis of matters which have greater bearing in the area of oversight and even enforcement due to mismanagement. Under this scenario many more lose than win.

Finally, we are very interested and very supportive of the so-called rent reform initiative being discussed for public housing as a further means to encourage economic integration in government-assisted housing as well. Public housing and assisted-housing residents need to have the disincentive to working, I call it the rent tax, removed or at least limited in both timing and amount. Residents should be afforded the opportunity to succeed, not just survive.

Mr. Chairman, in many respects we believe this administration is on the right track. NAHMA has worked in a positive and productive fashion with HUD in Washington and throughout the country on implementing and developing many important issues. As HUD seeks to reinvent itself and as the Clinton administration seeks to "Reinvent Government," NAHMA believes that policies must be put in place that ensure that assisted housing remains viable for the remainder of this decade and beyond.

NAHMA members dedicate themselves to this goal and look forward to continuing to nurture and sustain communities of quality.

I would be most happy to answer any questions that you may have.

I thank the subcommittee once again for your attention.

[The prepared statement of Mr. Houze can be found in the appendix.]

Chairman GONZALEZ. Thank you, Mr. Houze.

In your oral statement, Mr. McIlwain, you mentioned the 940,000 figure of units, but in your written testimony you have 373,793, I believe.

That would be project-based section 8 under the shadow of either preserving or losing.

Can you explain a little bit more on that 940,000 figure?

Mr. MCILWAIN. Mr. Chairman, the section 8 new construction and substantial rehab portfolio has been financed in various ways with contracts in differing lengths. The 940,000 unit number is an approximation based on HUD's estimate of all project-based units. The smaller number represents those that have 20-year section 8 contracts and were financed with FHA insurance. Those, of course, are the ones coming before us in the next few years.

Chairman GONZALEZ. I want to thank you for emphasizing that. I think that is the real issue and it certainly is a very serious one and difficult. Having gone through the section 221(d)(3) and 236 experiences, we had hearings in Dallas in 1985.

Mr. MCILWAIN. Right.

Chairman GONZALEZ. And this was right on the verge of the 20-year expiration point for those and the estimates we had from witnesses in Dallas was that there were about 10,000 units in the Dallas area alone.

Then subsequent to that, when the issue really became hot and you reached the point wherein the area such as in California, we had a member on the subcommittee then, Mr. Lehman, who reported very devastating information where you had a substantial—particularly in the quasi-rural areas, a refusal to continue the low rent. In fact, it added to the homelessness which by that time was obviously endemic and was raising national attention.

In this case though—the reason I jumped was when you said 940,000, that really would startle and I mean it would be a very definite red light and alarm bell for us to get going immediately. I think we should anyway and we intend to follow through on that. But I wanted to get some reconciliation.

I wonder if you could provide us with any insight about why the task force selected the 65th percentile in determining the status quo rents.

Mr. MCILWAIN. Mr. Chairman, I think there is not necessarily any magic in that particular number. That is an estimate, an effort to come up with a number which would produce a reasonable rent ratio or reasonable rent in those communities. It reflects the best information that we had that was available.

The effort there is to come up with a reasonable rent. If we are going to permit owners to renew at their existing rents without going through a more cumbersome process that would be difficult

for owners, residents, and HUD, we felt it was very important that their rents be equitable.

That was our recommendation. We are open to further advice. The principle is what is really important, in our view.

Chairman GONZALEZ. OK.

Well, again, coming back to this task force, I wonder if you could enlarge or comment further on how and whether the task force recommendations will help the Congress avoid the mistakes of the Preservation Program, such as it has been, its expense and complexity.

Mr. MCILWAIN. Well, when we started this, Deputy Assistant Secretary Helen Dunlop, who was the person that worked most closely with us and has been very supportive throughout this process, one of the principles we had to keep in mind was administrative simplicity. The rent-setting mechanisms we have come forward with we hope will be a movement in that direction.

We feel that we are trying to find ways to keep the rents as low as possible, the administrative process as simple as possible, recognizing there are numbers of different types of projects in different markets.

One of the things that I think is of most concern to all of us is going to be the properties where the owners could, without hurting the financial viability of their projects, let go of the subsidy and convert to market rate housing.

Displaced tenants would have to be given, presumably by the Department, tenant-based assistance, but in each of the hearings in each of the communities where we visited we were told that that would be a very difficult burden on the residents. Many project-based units are occupied by elderly residents, and to have the elderly be given rent certificates to go out into the neighborhoods and try to find adequate housing would be a very unfortunate burden.

Likewise, with families, all the problems that would be caused by breaking up these communities where they have lived for many, many years would be avoided if there were mechanisms in place to induce the owners to continue to participate in the Section 8 Program.

Now, here the owners have a legal right not to enter into a new contract. They can simply allow the contract to expire.

So one of the difficult challenges that your committee faces, that the administration faces, is how to come up with a mechanism to provide a reasonable, responsible inducement to the owners without going to the excesses that may have occurred or may be occurring or might occur in some of the other processes such as LIHPRA. We tried to find a balancing.

We also recognize that many of these properties are in some of the better neighborhoods where they provide a valuable income and racial diversity.

It is another reason why we need to consider seriously how to provide inducements to the owners to continue to maintain section 8 housing. Unfortunately, there is probably no way to make this as simple as we would like it. The further we get into reflecting on the different types of properties and different types of neighborhoods, the more complicated it seems to get. But we have tried to strike a balance.

Chairman GONZALEZ. Thank you very much.

My 5 minutes actually have expired, so I will recognize Ms. Pryce for any questions you may have.

Ms. PRYCE. Thank you, Mr. Chairman.

And thank you, gentlemen, for your participation today.

Mr. Houze, I appreciate your testimony. I understand the problem regarding the renewal of expiring section 8 contracts. I am sure that the chairman understands this problem, and I look forward to working with him and other members of the subcommittee to come to some resolve on this very serious problem.

It has been suggested that difficult decisions perhaps should be put off and maybe handled on a piecemeal basis over the next year or two. Would any of you like to comment on the advisability of that and what the consequences of that would be?

Mr. McIlwain.

Mr. MCILWAIN. I hope it would not become necessary to do that, Madam Congresswoman. I think there are some very challenging issues that we have to work on. I think it would be incumbent upon Congress to come up with a serious proposal this year to extend contracts and preserve this important housing, with the understanding that Congress could always refine any legislation it passes, should it choose to do so.

Ms. PRYCE. And if that timetable were not adhered to, would you care to comment on what may happen?

Mr. MCILWAIN. What will happen is very simple.

Starting in January or February—we actually had in our hearings owners or managers who have properties that are in this situation. Their contracts will be expiring in 1996. They are required by law to notify their tenants 1 year in advance if they do not have a plan to continue the tenants in occupancy.

Consequently, starting in several months, notices will be sent to tenants in those properties informing them that their occupancy will be up during 1996. I think we can all imagine the concern that that will cause in those communities.

Ms. PRYCE. Anyone else care to comment?

Mr. Houze.

Mr. HOUZE. Yes. Thank you.

As well, any interim considerations on this subject need to reflect the needs of the residents and the properties. Already, these properties are 20 years old, and there is a lot of long-term decisions that need to be made about the properties—replacing furnaces, roofs, whatever. Needs have built up in the properties, and we need to have a program that owners and managers can rely on to make 2- or 3- or 5-year decisions, not 1-year decisions at a time.

So any proposal that would extend those contracts for 1 year or even 2 years probably won't go far enough to ease the trauma and turmoil that the residents are going to go through, not knowing year to year whether they will get another notice.

As well, I don't know how a manager makes a decision on how do I just fix this? Do I patch it or should I replace this asset or this mechanical because it is failing and I need to do something and I don't know what my program will be a year from now.

Ms. PRYCE. Anybody else?

Mr. BODAKEN. The National Housing Conference, as you know, is leading this effort, and the Trust is part of the effort. I agree generally that the first step that they put forward before the subcommittee is a good first step. There is substantial work to be done.

One issue that I think should be considered by the subcommittee is the 25 percent who are in excess, who possibly could walk away. We need to figure a way to keep them in during an interim period, and it has just occurred to me that that is something that should be considered by the subcommittee if you are going to do some interim work, which I think should be done.

There needs to be a way to keep people in if we are going to try to keep them in long term.

Ms. PRYCE. OK. Thank you.

Mr. Smith.

Mr. SMITH. I would just repeat what my colleagues have said. So I have nothing to add.

Ms. PRYCE. Thank you, Mr. Chairman.

Chairman GONZALEZ. Thank you.

Mr. Gutierrez.

Mr. GUTIERREZ. Thank you, Mr. Chairman.

I would like to ask Mr. Bodaken some questions.

First, in estimating the cost-savings associated with the administration's proposed changes in the LIHPRHA Program has the administration accounted for the economic and social costs of the displacement of the existing low-income tenants and specifically the fact that tenants in these buildings would qualify under the program for section 8 vouchers?

And what is the savings when you look at HUD's proposal, when you take that into consideration, if any?

Mr. BODAKEN. As I indicated earlier, I do not believe that the savings are substantial, if any. It is absolutely clear that tenants who are required to leave as a result of the prepayment are entitled to certificates and vouchers.

In HUD's own request for 1995 authority for section 8 vouchers and certificates, the cost per year is almost \$5,720, something like that. In preserving these same units HUD is now appropriating about \$5,200 per unit per year.

So it escapes me.

There are recapture 236 subsidies on these that prepay and that forms a portion of it, but when you net against that, the actual cost of relocation certificates and vouchers, I don't believe there is any economic cost.

I do just briefly want to say I do not know if there is any consideration of the disruption in social cost in this proposal.

Mr. GUTIERREZ. We are going to have to ask about the economic and social cost because it seems to me, Mr. Chairman, that every time one of these buildings has been successfully refinanced the politicians jump up and down for joy in front of the cameras, whether it is a mayors' conference or whatever.

I remember Eastwood in the city of Chicago that nobody wanted to touch. This was a \$1 sale. And everybody said, you are crazy. You can't sell something for \$1. And it allowed the tenants to stay there, the people who wanted to remain there.

And later on it was so popular that the mayors of Los Angeles, Chicago, and New York all got together after the tenants had had a struggle with everybody to get their attention to show these great tenants, this great property, and how they had kept it for what it was originally designed to do which is provide low- and moderate-income people housing.

So I get concerned. I think we have to look at this program in terms of what was the program originally designed to do and can't we keep this part of the market for that original tenant?

So if people are going to get a section 8 certificate anyway, and there is a big cost to doing that, why not look and preserve these units of housing versus sending people out into poor communities?

Could you offer your viewpoint on the administration's proposal to provide zero funding for the Preservation Program in 1995?

Mr. BODAKEN. Yes.

I am opposed to zero. Very briefly, we presented both at the committee and I will present to your office a demonstration put together by the National Housing Trust that there are about 65,000 units that need to be funded for approval between now and September 30, 1995. HUD's budget estimates are that these units can be preserved at \$15,600 per unit. The actual cost over 5 years in HUD's own experience is about \$21,000 per unit.

If you take \$6,000 times 66,000, which is the \$6,000 difference between \$21,000 and \$15,000, you get about a \$300 million number or a little over that.

I do understand the budget constraints that HUD is operating under, and I am very sympathetic to them. I think that I really do understand the pressures they are under and the backlog in the preservation pipeline. But I do not believe the zero amount is a correct amount.

But I would urge you to appropriate a meaningful number somewhere in excess of \$100 million for fiscal 1995 and ask HUD to provide a quarterly report to you as to how many projects are actually being processed so you understand precisely what is going on in the field.

There is a huge backlog. They are entitled by law to be funded. If they are not funded, the owners are entitled to prepay, and we don't want that to happen.

Mr. GUTIERREZ. Mr. Chairman, I asked the question so that we could elicit an answer, obviously, and I think it is important because when you do zero funding on a program everybody thinks you don't need money. And we might understand that what is happening is that they don't feel that the funding is going to be necessary in 1995 so why put any dollars on something you are not going to expense it since the backlog is so great.

But it gets dangerous. You alerted us many times, Mr. Chairman, as we conducted hearings about how this Congress is walking away from its responsibility to provide housing for low- and moderate-income people.

If you do zero, people say, look, it is a new program. They want more money. They didn't need it before. Now they do.

And the fact is we have needed the money all along. We have a responsibility to keep that money.

Mr. Chairman, even though that light is red, since I didn't ask any questions on the first panel could I have a couple more minutes with the indulgence of my two colleagues?

Chairman GONZALEZ. Absolutely.

Mr. GUTIERREZ. Thank you.

I wanted to ask about this specifically so I tried not to use time earlier.

There is a building, Northwest Towers, in my district, and the project is currently ineligible because it once received a flexible subsidy loan. Are you aware of the status of the study that Congress required HUD to do in 1992 on the issue of economic impact of providing LIHPHA incentive to projects with flexible subsidies?

Mr. BODAKEN. Yes. HUD was required in 1992 to provide that study within 1 year, and I don't believe it has been published or reported out.

Mr. GUTIERREZ. I think we need to look at that.

Mr. BODAKEN. It was part of the amendments to this act, section 318 if I recall, the HCD Act of 1992.

Mr. GUTIERREZ. In HUD's explanation of the changes to the LIHPHA Program, HUD states that State and local governments could elect to make up some or all of the difference above the Federal cost limit if they determine it is important to preserve certain projects.

First of all, these were contracts made up by the Federal Government and second, it appears we would be imposing yet another unfunded Federal mandate on cities and States. That would be part of this program if we did.

Do you have any thoughts on this? Is there any evidence that you know that States and local governments would participate in such a program?

Mr. BODAKEN. Well, I think, first of all, and key to this, is that I think many State and local governments are interested in trying to preserve this housing.

It is, in fact, occupied often in neighborhoods throughout their cities. It is, as you mentioned, located in different places, and I think there would be a key interest in doing it.

However—and this is the key—however, the program, as presently structured, allows financing for them to enable themselves to do that for perhaps less than 5 percent. If you eliminate the Mandatory Sales Program which is in HUD's proposal they will not get an opportunity to step up to take those programs over. That is what is key.

What is different about this proposal is the elimination of the sales program, something never before proposed.

I was city coordinator for housing under Mayor Tom Bradley for about 4 years before I came here, and we had a preservation unit, and we would not have been able to save over 10,000 units in the Los Angeles area that would have been affected by this proposal one way or the other. We would not have had the resources, and they would have had nowhere to turn but to us.

In a time we are talking about giving States more flexibility in decisionmaking to take this program away it doesn't make sense to me.

Mr. GUTIERREZ. Do any of the other panelists care to respond or do they have any thoughts on that? Mr. Houze. Mr. Smith. Mr. McIlwain.

Mr. HOUZE. No, I don't.

Mr. SMITH. No.

Mr. MCILWAIN. I would like to second Mr. Bodaken's remarks. I think these resources are critical.

I am aware that State and local agencies are very active in looking to preserve the housing in their area which is why I referenced the activities of the Massachusetts Housing Finance Agency. And any State that has an active finance agency, as yours does, has a team of people in place, dedicated really, and these guys are looking at it real hard, and they need the resources.

So I think there will be a lot of activity in that regard.

Mr. GUTIERREZ. Mr. Chairman, if I could—I would like to thank you for the additional time that you granted me because I just think that, as in my opening statement, I alluded to the section 8 certificates, and they are expiring and the concern of the expiration.

There has been a lot of work and energy and toil and search for justice and some equity. There is a lot of history to many of these housing projects in terms of a request to have a society that is a little fairer to people. I think it is more than just saying these units are going to disappear. There is a whole struggle and a whole community and whole history that has been behind these units of housing.

I think it is important to the fabric of our cities, whether it is rural or in the cities, and to keeping people together.

So I think this program is important and that we try to speak in one voice bipartisanly. Because I remember the first time that we could get then Secretary of HUD, Mr. Kemp, to Chicago together with Mr. Yates, two very diametrically opposed people philosophically on many points, Republicans and Democrats, was when we did these housing units and we did the refinancing of them.

Everybody can come together, and it is a win-win proposal for everyone. So I think we have to be very careful in reducing the manner in which municipalities and localities and—not transferring a burden to them that clearly may not be a cost savings whatsoever.

I would like to thank each of the four panelists for appearing, and I listened intently to the testimony. I didn't ask questions of the first panel not because I thought they were less important but because I wanted to focus my questions on the second panel.

Thank you, Mr. Chairman.

Chairman GONZALEZ. Well, thank you.

And if you have any additional questions you may submit them in writing for the record.

Mr. GUTIERREZ. I shall, Mr. Chairman.

Chairman GONZALEZ. I certainly agree with you. You know, I never have been a nada man—which means zero.

Mr. GUTIERREZ. Which is something I understand well.

Chairman GONZALEZ. I was just going to pose a question briefly instead of waiting to submit this, continuing our discussion here.

I was going to ask Mr. Bodaken—first, I couldn't agree with you more than when you described the effects of the so-called savings

which I have said are illusory. But I also believe that these are measures that would kill, if not stifle, the nonprofit participation in the Preservation Program.

Do you have any information or data or documentation concerning priority purchasers and their participation to date in the Preservation Program?

Mr. BODAKEN. We are actually trying to obtain that data with an upcoming HUD grant.

What we know is the following: We know that approximately one out of three projects are being sold as they go through the pipeline. We also know that, as you know, there is a preference for certain priority purchasers, and we are going to ask to conduct a study, try to find funding for a study for that exact purpose, because it is important to know that information.

We can give you anecdotes, but we can't give you anything specifically, statistically speaking, yet. The program was heavily weighted to accomplish that result, as you know.

Chairman GONZALEZ. We will be expecting it, and when you compile your information we would be most grateful if you could give it to us.

Ms. Pryce, do you have any questions you would like to ask now?

Ms. PRYCE. No. Thank you very much, Mr. Chairman.

Chairman GONZALEZ. Well, thank you. And we won't impose on this very patient panel any longer. It is now about 20 minutes past 1 o'clock so you have been extremely patient. We want to thank you again for your extremely valuable contribution.

The subcommittee will stand adjourned until the further call of the Chair, which will be next week on the 10th at 9:30 a.m.

[Whereupon, at 1:21 p.m., the hearing was adjourned.]

**H.R. 3838; HOUSING AND COMMUNITY
DEVELOPMENT ACT OF 1994**
(REAUTHORIZATION AND H.R. 4310, THE HOUSING CHOICE
AND COMMUNITY INVESTMENT ACT OF 1994)

THURSDAY, MAY 12, 1994

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING
AND COMMUNITY DEVELOPMENT,
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:04 a.m., in room 2128, Rayburn House Office Building, Hon. Henry B. Gonzalez [chairman of the subcommittee] presiding.

Present: Chairman Gonzalez, Representatives Waters, Klein, Gutierrez, Roybal-Allard, Barrett of Wisconsin, Furse, Fields of Louisiana, Watt, Roukema, Bereuter, Knollenberg, Lazio, Grams, Castle, and Pryce.

Also present: Representative Frank.

Chairman GONZALEZ. The subcommittee will please come to order.

We will start out by expressing our gratitude to the Secretary for acceding to a request on quick notice, last week, in fact. We continue the hearings on reauthorization of all of the basic housing programs. We have heard from almost every single interest group there is and public witnesses, from tenants of public housing to other nonprofit citizens groups. We have also had the various administrative heads of HUD agencies or subdepartments.

Today we have the Secretary, and I am going to ask that my prepared statement, even though it is very short, be submitted for the record so we can proceed. The House is going into session relatively early today.

Well, we are in, and we just don't want to anticipate some recorded votes.

Legislative-wise, of course, since 1990, we have had productive output. And I feel that this year, now that the administration has presented its bill, so to speak, or its program, we will proceed at the same time, because we don't have many working legislative days this year. It is an election year, and we have got to move out in order that we can mark up the bill. Our target date is right around the corner to begin our markup in the subcommittee, and get it to the full committee and out of the House and see how the Senate reacts. Those matters of most immediate concern, as reflected in the Secretary's bill, we, of course, will try to proceed on.

But we don't want to sacrifice our main responsibility of renewing and extending every one of the programs that are due to expire at the end of this fiscal year.

With that, I will recognize Mrs. Roukema.

[The prepared statement of Chairman Gonzalez can be found in the appendix.]

Mrs. ROUKEMA. Thank you, Mr. Chairman.

Certainly, I want to welcome Secretary Cisneros here. And, Mr. Chairman, for you and other members of the subcommittee, I want to express my regrets that I am unable to be here in full attendance today. As you know, I have been conspicuous by my absence in the last couple of hearings, but the reason, as I am sure that you have announced, is that I have responsibilities in the Labor-Management Committee where we have been in session continuously for the past 3 weeks, and including today marking up the Health Care bill, and my presence is required there.

But I did want to be here to welcome the Secretary, and certainly to indicate that I hope we can continue to work together as we have over the past recent years to develop bipartisan Housing bills. I think you know my commitment in that regard. That doesn't mean that we agree on all matters.

I have already expressed to you, Mr. Chairman, and to the Secretary in past occasions, my concerns about some of the priorities as the Secretary has set them out. I don't think they are irreconcilable conflicts and I would hope that we could come to an accommodation.

Particularly, you know my interest in the HOME Program, as well as the section 202, elderly housing, and the questions that I, and by the way, others on your side, Mr. Chairman, have raised regarding public housing operating subsidies. We will be going over those in some detail, as you know, and as I quipped, taking the comment from another colleague, it wasn't mine originally, we can't rob Peter to pay Pauline. That is the politically correct way to express it these days.

Anyway, I think there is some of that robbing Peter to pay Pauline here. And I would like to work long and hard with you to resolve some of those questions.

Mr. Secretary, in the interest of time, and knowing that my other colleagues may have comments to make, I would like to present to you my full opening statement, and in there, there may be one or two other points to be made where I hope we are able to reconcile our differences and see to it that we attend to the pressing needs of housing and at the same time are consistent with the competing needs for budgetary restraint.

Thank you very much.

[The prepared statement of Mrs. Roukema can be found in the appendix.]

Chairman GONZALEZ. Without objection, your full statement will be admitted.

I don't know about Pauline, but I know we are not going to steal from Marge.

I also ask unanimous consent that the letter from the Secretary to the Speaker, Thomas Foley, of April 26, in which he transmitted

a section-by-section summary of the Housing Choice and Community Investment Act of 1994, be placed in the record.

And with that, I will ask if Mr. Klein has any remarks or observations.

[The letter referred to can be found in the appendix.]

Mr. KLEIN. Mr. Chairman, I will defer any comments I have in order to permit the Secretary to make his statement and then I would be pleased to have the opportunity to ask questions.

Chairman GONZALEZ. Very good.

Mr. Bereuter.

Mr. BEREUTER. Mr. Chairman, I welcome the Secretary with you and want to hear as much as possible of his comments before I have to leave for a premarkup session.

Chairman GONZALEZ. All right. I tell you, I am glad I don't belong to all of those committees.

Mr. Gutierrez.

Mr. GUTIERREZ. Thank you, Mr. Chairman.

Welcome, Mr. Secretary, and thank you for all of your help in Chicago in the last couple of months and I look forward to continuing working with you. And just one note, and that is we had a big discussion at our last subcommittee hearing and part of it was on the preservation prepayment provisions that are included in HUD's new proposal and how some of us have some concerns about how that might reduce the number of housing units while not saving any money.

So there is a lot of discussion about that. I have heard some, and I bet you have too, Mr. Secretary. If you could take some time to address that, I would welcome that. I look forward to working with you.

[The prepared statement of Mr. Gutierrez can be found in the appendix.]

Chairman GONZALEZ. Let me mention for the record that the Secretary has been amazing. We run into each other all the way from Chicago to my hometown, San Antonio, and Houston, Texas. And the last time, Congressman Gutierrez was with us at the Chicago hearing on the 22nd of last month. I want to congratulate you because, as far as I know, and I have been here since the very first HUD Secretary, you are the first one that really goes not only to public housing, but to every other HUD-sponsored program, community development, and the like. I think it is very inspiring.

Mr. Castle do you have a statement?

Mr. CASTLE. I have no statement. I appreciate the Secretary being here and look forward to hearing from him.

Chairman GONZALEZ. Mr. Watt.

Mr. WATT. Mr. Chairman, I don't have an opening statement either, but I welcome the Secretary and look forward to his testimony.

Chairman GONZALEZ. Well, Mr. Secretary, it is in your hands now.

**STATEMENT OF HON. HENRY G. CISNEROS, SECRETARY, U.S.
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

Secretary CISNEROS. Thank you, Mr. Chairman.

First of all, let me repeat publicly what I did personally just a moment ago, and that is to extend congratulations to you for being selected to receive the 1994 John F. Kennedy Profiles in Courage Award. That prize which recognizes your well-known, now nationally significant determination to stand up and fight for what you believe is right, regardless of the political consequences. The award is designed to recognize people who by their actions live out that creed. All of us who have known you for many years, and now the entire Nation, is learning that aspect of your record and character. It is my understanding the award will be presented on May 23 at the Kennedy Library in Boston and I think it will be an important event and I congratulate you. We are very proud of you.

I thought that what I might do is just submit my statement for the record, because it is a long statement, and just jump past the first five pages which basically describe some of the preamble for why we have undertaken to build our program in the way we have, and go right to page number 6 and go into the priority statement, the way we have organized the Department, the way we have organized our work and our thinking, and the way we have organized this legislation and then enter what each of our legislative priorities would do.

First, priority one, reducing homelessness. Throughout the early eighties and nineties, the number of homeless people on America's streets steadily increased. In the absence of a large-scale Federal commitment to confront the problem, local governments and non-profit groups were left to deal with it. The result was an ad hoc and fragmented system of soup kitchens and emergency shelters which addressed the symptoms rather than the causes of homelessness.

The Housing Choice and Community Investment Act of 1994 puts the Federal Government in the business as a leader and full partner in local communities' efforts to reduce the number of homeless Americans on the streets.

The act would double Federal support for HUD homeless-assistance initiatives. More than \$1.7 billion would be authorized for homeless assistance in fiscal year 1995, including continuation of the \$100 million special programs through the Innovative Homeless Fund.

Second, it creates a new approach to homelessness. The current patchwork quilt of food banks and emergency shelters would be replaced by a "continuum of care" which addresses the specific needs of homeless people for job training, counseling, drug, alcohol, and mental health treatment, and other services. The existing McKinney Act Programs, which are the product of the excellent work of the members of this subcommittee over the years, would be reconsolidated to give local governments the power to design and implement comprehensive strategies to meet local homeless needs.

It would remain known as the McKinney Programs but they would be consolidated to give more flexibility at the local level. Under this priority we would put a special emphasis on giving homeless people permanent housing. As the final component in this continuum of care, the last step along the strategy which begins with outreach and shelters and goes through counseling and transitional housing, would be permanent housing. We are proposing

rental assistance to 15,000 homeless persons and families with use of the voucher and certificate system as we have never used it before. This would be an innovation, but experts tell us it is the best way to get homeless families with children into permanent housing.

Priority number two is to work on public housing. Over the past several decades, our policies have transformed too much of public housing into "warehousing for the poor." They have led to the concentration of the very low-income families in dense, highrise housing, frequently discouraging residents from working.

We have overregulated and micromanaged, stifling local creativity and innovation. For example, public housing authorities have been compelled to use their modernization funds to renovate deteriorated, high-risk buildings where it would have made more sense to replace these buildings with economically integrated, well-designed, small-scale, affordable housing.

This act, the Housing Choice and Community Investment Act of 1994, would establish a new foundation for transforming public housing. We would replace distressed public housing. The act dramatically increases the resources available to public housing authorities to redesign and replace the Nation's most deteriorated public housing. HUD has already committed \$1 billion under the new HOPE VI Program. The 1994 act would improve the Modernization Program by allowing funds to be used for demolition and replacement housing and for the first time enabling public housing authorities to collectively borrow billions of dollars against future modernization funds, and leverage these resources for replacement of housing that needs to be replaced.

Let me say as an aside to make it clear, I am personally a supporter and would support, encourage, and fight for the continuation of one-for-one replacement rules. I believe it is important that we maintain the public housing stock. We have three times as many people on the waiting lists as the people who are now using it. But anyone who sees some of the worst of public housing would acknowledge we cannot wait decades to replace it and we have to find mechanisms to allow the one-for-one replacement process to move forward, and that is really what we are asking for.

This bill would enable us to fight crime. Community policing, youth recreation and education, and other anticrime activities would be encouraged and supported in COMPAC, the Community Partnerships Against Crime, an expansion of the existing Public Housing Drug Elimination Grant Program and a complement to our interdepartmental Operation Safe Home. It would encourage partnerships between residents and management and police.

Third, this bill would allow us to help make work pay for housing residents, and allow them not to be penalized when they do work. Rent rules would be revised to ensure that unemployed public housing residents who obtain a job or who participate in employment training programs would not pay higher rent for at least 18 months; and rent increases for working families would be limited to market rates providing an incentive for them to remain as residents. Admission rules that restrict public housing primarily to the very-low-income persons would be modified to permit greater income diversity and allow working families among the residents.

Again, all the experts tell us it is income mix that makes the difference between public housing that is successful and that which is not.

Finally, with respect to public housing, we would promote jobs for residents. The act would encourage jobs and small business opportunities for low-income residents. Stringent enforcement of section 3 of the 1968 Housing Act, for the first time since its passage, would enable public housing residents to share in the economic benefits of HUD-generated construction, modernization, and services contracts.

Economic Opportunity grants and Family Investment Centers will under this act provide habitual housing residents with job training, placement, and other services. Residents would receive greater support for community organizing of tenant interests empowerment, of tenant leadership itself, through the Tenant Opportunity Program, for which funding would be more than triple.

Our third priority is to expand affordable housing with a focus on homeownership. The Housing Choice and Community Investment Act puts FHA back in business, the business of promoting affordable housing production and opening the doors to homeownership to Americans who have been locked out. It would make \$100 million available through the National Homeownership Trust Fund Demonstration for downpayment assistance, closing costs, second mortgage assistance, and other help for first-time home buyers. It would also make no downpayment financing available to low- and moderate-income buyers who purchase homes in urban revitalization areas. To support the success of these initiatives, the act would more than quadruple funding for homeownership counseling for renters seeking to make the transition to buying a home.

The act would raise the maximum FHA mortgage amount from \$152,000 to \$172,000 in high-cost areas and raise the basic mortgage limit in most areas of the country based on a variable formula. Together these changes will increase affordable housing financing opportunities for 85,000 American households. Also, Price Waterhouse has determined that raising the loan limits will improve the economic soundness of the FHA insurance fund. We cannot ask FHA to be active at the lower end of the ladder without recognizing that it must have the ability to work at the higher ranges, as well. Other provisions of the act would allow for greater flexibility and experimentation with new mortgage insurance products, allowing FHA to reclaim its traditional role as an innovator in America's mortgage markets.

Finally, with respect to this point of affordable housing, the act would authorize more than \$500 million, a fivefold increase over the money appropriated by Congress to leverage billions of dollars in pension fund and other private and public investment in affordable rental housing.

And I might say, I had the opportunity 2 days ago to speak to the National Conference of Public Employee Retirement Systems and the Public Employee Pension Systems. All the States and localities across the country are interested in relating to this initiative in the way that the AFL-CIO pension systems did last year.

Next month is the end of application period for programs to apply for the first \$50 million of the \$100 million new allocated last

year. There are over 600 expressions of interest now to build housing using pension resources in that first \$50 million. We will have to cull through those, but it is everything from elderly housing and housing for persons with disabilities to more traditional but absolutely necessary central-city housing that will be made possible because of that AFL-CIO initiative that you supported here last year. And we want to expand that dramatically in the year ahead. It is one of those demonstrations that has worked.

The fourth priority is to enforce the fair housing laws.

For too long the Federal Government failed to enforce laws guaranteeing all Americans freedom from discrimination in the housing markets and in the lending markets, instead supporting programs which concentrated poor people in separate communities where they became isolated from their fellow citizens. We are active in ensuring that no one is barred from affordable housing or loan opportunities because of the color of their skin; that no one unfairly denies the capital that is needed for economic development and that Americans enjoy what we feel so strongly about that we put it into the name of the act, real "housing choice," a fundamental American concept, a conservative idea: Choice for Americans, to exercise their personal options.

So, the Housing Choice and Community Investment Act would overhaul the section 8 rental assistance to give low-income families a meaningful opportunity to choose where they live throughout a metropolitan area. It would authorize \$149 million for what we are calling the Choice in Residency Program, providing intensive counseling, housing search assistance, and other services to thousands of additional recipients of tenant-base assistance.

The act would significantly expand funding for State and local governments and nonprofits to assist the Federal Government in enforcing fair housing and fair lending laws, including metropolitan-wide assistance housing demonstrations, and it would give HUD the resources to expand Federal oversight of fair lending violations and insurance redlining.

Finally, for the first time, we would provide 5,000 section 8 rental assistance certificates to persons with disabilities, persons who have had no housing choice and so they were forced into highrise senior citizen residences where the mixing of populations of elderly, frail populations with younger, disabled populations proved to be an insufferable problem.

Finally is the priority of empowering communities, the role of community economic development, the marshaling of resources to strengthen community-based development efforts. This act would authorize a series of initiatives to create jobs to give the communities the tools they need. The Zone Economic Development Initiative would be HUD's participation in the administration's empowerment zones, authorizing \$500 million for community-based economic development activities.

Our neighborhood LIFT initiative would authorize \$200 million for activities such as retail and commercial and mixed-use projects in neighborhoods to do economic development in strategic neighborhoods.

The mayor of Cleveland, Mayor White, for example, tells me that he cannot take advantage of our housing programs on the side

streets in Cleveland because the arterial streets where businesses are located are in decline. And the neighborhoods simply are losing faith that the neighborhood can be revitalized; that it is not worth individuals pouring money into housing, their own housing investments if the main streets of the neighborhood are in decline. I have seen this firsthand with Congressman Waters in south central Los Angeles.

The act would authorize \$150 million to encourage local governments to use HUD's section 108 loan guarantees to borrow up to \$2 billion annually for economic development projects. This program is expected to leverage an additional \$500 million in private sector investment and community economic development.

The act would allow us to bring resources to the communities using our traditional programs. It would continue full funding for the Community Development Block Grant Program, an essential local revitalization tool.

And the HOME Investment Partnerships would be reauthorized at over \$1 billion, and would include a new loan guarantee program to help localities leverage significant additional resources for affordable housing.

Finally it promotes grassroots efforts. We are proposing a Community Viability Fund to support the work of community-based organizations.

Congressman, Mr. Chairman, you know first hand the effect of organizations like Communities Organized for Public Services in San Antonio and counterparts like Build in Baltimore and others across the country that need some support for their efforts. And with the lack of discretionary funding today, we have no ability to support efforts like the revitalization in south central Los Angeles and others.

This would allow us to support community-based groups, the design and development of public projects, neighborhood, metropolitan-wide planning efforts.

Mr. Chairman, that in brief, then, is a synopsis of the Housing Choice and Community Investment Act of 1994.

Let me just say a couple of things in closing and, again, I want to leave the prepared text here in order to be briefer than it would take time to read. First, this follows in the tradition of nationally important housing legislation that has come from this subcommittee. We don't pretend that this is a dramatic rethinking of housing policy.

It is not. It is improving in marginal ways the excellent work that the subcommittee has done over the years. For example, the LIFT Program, as it is a variation on Community Development Block Grant, more targeted to economic development efforts, for example, or the counseling efforts which you have previously authorized in a smaller way, and now merit dramatic expansion, and everyone tells us if we want to expand homeownership, it is counseling for people that is essential.

Or the extension of last year's pension initiative so that we can leverage more of these kinds of dollars beyond what the unions were willing to do it, to what public employees and foundations and university endowments and others can do to leverage those resources.

So it is a step that builds upon what has gone before, and that attempts to push in some slightly new directions, by really learning what people in communities have been doing across America for the last 10 years or so, when in hard years they have had to innovate and scratch and create, and their lessons are now ready to be lifted up to national legislation.

Second, some have said that we are abandoning our core programs. That simply is not true. We have cited some new initiatives, but at the same time, we feel we are making improvements to the core of programs. This is not an abandonment of public housing. Not at all.

It is a commitment to public housing that is an essential part of America's housing stock but with a commitment to do it in a way that circumstances require. The new realities of crime and drugs and low incomes because of the jobs base being eroded in our country, and guns, requires rethinking some of the architectural configurations and the concentrations of people in public housing.

Again, I am committed to one-for-one replacement, we just need to provide for the replacement, and under present rules we can't ever get to replacement. We are limited to putting that money to modernize buildings that are beyond modernization. So these are the kinds of themes that are woven throughout this document, Mr. Chairman, and I am excited about being here because it gives me the chance to share with you the thinking that went into these provisions and it gives me a chance to try to persuade you and the members of this subcommittee that if you give us these tools we believe we can make a difference out across the country.

Let me close with this thought. There are some who would say we have to do things exactly as they have been done. That is a formula for defeat, because times change and we must change with them. If we are sincere in our goals, then we can meet these objectives of serving people in some of the new ways that are required to do it.

If we want to do things in just the exact same way they have been done, formula programs like CDBG or modernization programs, you wouldn't need the team that we have assembled at HUD to do that. We could get folks who come from an accounting firm and think how to run a computer and pass out checks, but you have asked folks to make an assessment of what needs to be done in the housing conditions of America.

Many people criticize the directions that we have taken, including my own inspector general, and that is her right, as an independent inspector general, to do that, but I take the position that managing HUD is a lot more than managing the interior workings of a Federal bureaucracy. It is trying to make a difference in the communities out across America.

So we are going to keep pushing past the management problems of HUD, which are real, and get a handle on those, but the place we are going to be graded is not on whether or not we redesigned a program at HUD headquarters at 451 Seventh Street in Washington, DC. It is whether or not we designed programs that work in Chicago, and in Tucson, and in Los Angeles, and in West Virginia, and in the rural areas of North Carolina. And that is what this act asks for, the tools to begin to make that kind of a dif-

ference out on the streets and neighborhoods and communities of America.

Thank you, Mr. Chairman, for giving me the opportunity to make this opening statement.

[The prepared statement of Secretary Cisneros can be found in the appendix.]

Chairman GONZALEZ. Thank you very much, Mr. Secretary. We have quite a number of members present. At least more than we have had on recent past hearings, and I am grateful, but I will stick to the 5-minute rule on questioning. What I will do is emphasize one or two things that have been reflected in the communications we have had from throughout country. That has to do with the very first thing that you spoke of.

Also, we were able to obtain the transcript of the proceedings at the Senate hearing where you appeared. I noticed Chairman Sarbanes asking the question that you referred to about enlarging upon existing programs or conceiving of new programs, so I am familiar with that discussion. I thought that very significant points were brought out.

But the very first issues you referred to, the homeless and reducing homelessness, have been the causes which have always been of primary concern to me, and have so many and varied, underlying and immediate causes, and about which I don't think any one Department can do much, other than that the Congress has placed responsibilities for this issue in some areas.

But it is this issue in which we have heard from almost every State by letters, and also we have had hearings. The issue is the proposal to remove from FEMA the responsibility of the Emergency Food and Shelter Program.

Regarding your consolidation program, we have invited testimony from interested groups, particularly regarding the homeless consolidation. The thing that seems to stick out the most is the anguishing question of why remove the Emergency Food and Shelter Program from FEMA, when apparently the consensus is that it has done a very good job, and placing it over in HUD completely?

Now, with respect to consolidation, I think your basic idea is very sound and worthwhile, but what about this question of whether there is any immediate emergency need to do this at this time, the transfer, without some transition experience. Generally, has any thought been given to a transition period in the general goal seeking consolidation?

Secretary CISNEROS. Mr. Chairman, specifically speaking to the FEMA transfer, that was not something that was initiated in our Department. That was never something that emanated from any discussion at HUD. It was a decision made by the Office of Management and Budget for reasons of efficiency and sort of logic in treating of homeless initiatives.

We would do the very best if the program did come to HUD. We are not seeking it and never did seek it. I have no sort of defense that I can articulate for it other than a government-wide desire to put programs logically in one place. I don't suggest that we couldn't do it if it was assigned to us, but we are not aggressively seeking it.

Chairman GONZALEZ. I see. OK. That seems to be the erroneous impression that is agitating many persons. But when you describe the Office of Management and Budget, how did you describe it, as saying in their wisdom?

Secretary CISNEROS. Seeking for logic.

Chairman GONZALEZ. Well, I think that is an oxymoron. I never heard that emanating from OMB. I can remember the days when there was——

Secretary CISNEROS. I have to work with them. You can——

Chairman GONZALEZ. I think it reaches quite a point of absurdity, when even such things as presentations have to be cleared by witnesses from HUD and in all other Departments through OMB. I have been one of those that watched other executive branch developments, such as at one time the fashionable chief of staff development. Even Eisenhower, who generally had to learn that he was no longer an overall general that had a staff, and finally got used to the fact that he didn't have a staff, he had a cabinet. And he soon learned the hard way, if I remember my history. But it is the same thing with OMB. And I am delighted to hear, though, that there is no actual request or suggestion emanating from HUD in that respect.

Regarding fair housing, I wanted to compliment you on that, because it has always been a problem. As a matter of fact, it has been a problem here in this subcommittee.

In the middle-1980's, we were in the awkward position of mandating the Secretary to use \$10 million, which he was not really requesting, for fair housing implementation. But we had quite a fight among the majority before we could finally get the authorization for \$10 million. I believe that was around 1985 or 1986.

So what you have done is most laudable. It is a tough one. Its dimensions are awesome, but I want to applaud your efforts. Now, regarding the new fair housing related program in the bill that you have well-described establishing the metropolitan areawide strategy demonstration, I believe you called it, which I think you described as facilitating the marketing of Federal-assisted housing on a citywide, a metropolitan areawide basis. I wonder if you could enlarge a little bit further and explain how it would differ from the HUD-proposed Choice in Residency Program, and the current Moving to Opportunities for Fair Housing Program.

Secretary CISNEROS. Mr. Chairman, the first program, Moving to Opportunity which becomes Choice in Residency is really a counseling initiative that works with local individuals and attempts to help them move into another setting, to follow up on the fact that they have a certificate or a voucher and that they are going to move to a suburban setting.

I met a lady by the name of Mrs. Jackson in Chicago who is helped by the Metropolitan Open Housing Commission there who had never been outside of the city of Chicago. She became the recipient of a voucher to allow her to move. She wanted desperately to move. She had a little boy and she was petrified for him living in the constant random shooting environment in the public housing in Chicago. She had no idea how to begin. She needed help seeking an apartment and settling into a job, and getting him a school. And all of those things were accomplished with the help of that metro-

politan open housing effort in Chicago, which is the model for what we want to do in Choice in Residency.

Now the distinction then between the other larger program is we want to work with local governments to create fair share responsibilities for open housing across an entire metropolitan area. We have five models now where we are trying this in five metropolitan areas, the closest one here is Baltimore. And the mayor of Baltimore has met with the officials of Baltimore County and outlying communities to begin discussing some fairness and sharing responsibility for persons throughout the metropolitan area.

This is a very difficult subject in American life. It is a great unresolved question in American public life whether we believe in the idea of integration or not. I personally believe it must be a holy grail we seek as a society. But it means that we need to have the capacity to work with the levels of government and plan at a regional and metropolitan level so we don't end up with concentrations of people.

To answer your question in one sentence: The difference is one works with people to try to get them the help they need to make the personal move; the other works at a community and government level to create the set in which people cooperate on fair housing across a metropolitan area.

Chairman GONZALEZ. Thank you very much. My 5 minutes are over with, and I may have some questions in writing to submit in case we proceed expeditiously and don't have another opportunity.

Secretary CISNEROS. Mr. Chairman, let me, if I may, just share one late development with you from HUD. And that is that we have listened carefully as you and members of your staff, and the committee have spoken to us about the core programs. And as Senator Sarbanes and others have said, they are concerned about our core programs so what we have done in the last days—and this, hopefully, will be concluded with OMB and formalized within a matter of the next 24 hours or so—is look at many of our programs, the new programs and other programs in the budget, and tried to come up with more money that can be put into the core programs so that the disparity, for example, in public housing modernization between what it has traditionally been and what we asked for is not as great.

Let me cite you some of what we are proposing; it is still in discussion with OMB. This is not in the manner of a formal announcement, but we hope to take the \$500 million request for the pension fund certificates and reduce it by \$100 million to \$400 million, so that we can put \$100 million back into public housing modernization, which many have felt was a little short and we were not doing enough there.

We want to take the LIFT Program, which we had originally proposed as a set-aside from CDBG and move it from the annual contributions account so that there is no doubt that CDBG is fully funded and the LIFT Program is funded as the Secretary looks at discretion from the annual contributions account.

We want to take \$50 million from the Community Viability Fund, which we have proposed at \$150 million, and \$50 million from our economic development initiative, which was at \$150 million, and put them back into the HOME Program so that the

HOME Program, which was previously \$1.2 billion—we proposed it at \$1 billion; now it gets to \$1.1 billion which is a little closer to where the committee has made it clear it wants it to be. So these are some of the kinds of discussions we have under way with OMB.

Frankly, to show good faith with this subcommittee and with the Senate members who have articulated their concern that in our quest to set off in some new directions we do not shortcut some of the traditional programs, we have scoured the budget, and we are still in the process of doing that. But it is an attempt to address the concerns of the committee.

Chairman GONZALEZ. Once again, I applaud that judgment and that wisdom on your part. I think it was last week you were before the Appropriations Subcommittee, and I think they expressed pretty much the same thing, so that is very wise.

I am very glad to hear that, and thank you for that explanation.

Mr. KNOLLENBERG. Am I recognized, Mr. Chairman? Thank you.

Mr. Secretary, good to see you. I have a question about the 18 new programs and, specifically, I guess it is 15 that require authorization by this subcommittee.

I understand there are some 200 authorized programs in place, and I think there are about 67 programs that have been created and substantially altered since 1990. I am a little concerned about HUD's ability to effectively manage all of these programs, and as you know, the HUD IG has also questioned, of course, HUD's ability to administer these programs. So the idea of growing this whole process seems to be a part of the process here.

I know that you mentioned that this is not a dramatic rethinking, I think those were your words. And then you also said, times change and we must change with them.

I want to go back to a quote that you made, in *Government Executive Magazine* last July. And it has to do with this whole growth of the HUD Program. You were quoted as saying what we have chosen to do here is in some senses less glamorous than the traditional democratic way. We are not going to put up a whole new bunch of new programs for experimental approaches; what we have to do is attend to the core business of the Department. And as we discussed already, there are these 15 new programs.

Could you elaborate on this? I am sure that there are some differences in what you saw a year ago and what you see today, but why this change?

Secretary CISNEROS. Congressman, thank you very much. Let me say that over the course of the last year, the principal focus, our highest priority has had to be on the management problems, because everything else would crash if the trajectory was the same from a management standpoint as it has been.

One of the most recent products of that work is this document which has been tendered to the members, but I would be happy to give you this copy now, entitled "The Transformation of HUD." It is a report to the Senate Appropriations Committee, at their request, of some of the things that we have been trying to do of a management nature, with a principal focus on consolidation of the unwieldy number of programs.

At the time that we looked at our budget last year, we had about 162 separate programs. This HUD transformation plan attempts to

concentrate our work in 17 core areas; they are shown on page 40 of this document, the total of about 50 active programs instead of 162. We are working to reduce the number of separate programs.

The Department is proposing to eliminate, in this document, 59 separate programs, intensively reviewing an additional 47 for termination or consolidation and streamlining.

Again, let me hand this to you and I direct you to page 40, where you see how we have rationalized the responsibilities of the Department into 17 areas and eliminated 59 programs outright, and looking at 47 more for consolidation in order to streamline what we have.

The chairman in his opening statement made a suggestion that perhaps in some of these things that we feel we need to be doing that are characterized as new, that we look at ways in which that authority can be given within existing programs without having to draft new authorizing language that makes them stand aside as separate programs.

We don't seek to build new programs; we just want to get to the communities and the streets with the effect of some of these things.

Mr. KNOLLENBERG. Is this in process now? Do you intend to make those recommendations for termination?

Secretary CISNEROS. Yes, sir.

Mr. KNOLLENBERG. And that is being submitted to Congress right now?

Secretary CISNEROS. Yes, sir, some of those are in this bill.

Mr. KNOLLENBERG. You mentioned a number, and would you repeat it, please? You said something like 200.

Secretary CISNEROS. One hundred and sixty-two is the number that we have used.

Mr. KNOLLENBERG. So you are saying that you are cutting some—

Secretary CISNEROS. Fifty-nine are eliminated in actions the Department is taking or actions that are in this bill, consolidations; 47 more are under review now.

Mr. KNOLLENBERG. I would be interested in that document, and I presume that other members of this subcommittee would as well. So I do appreciate your comments.

Thank you.

Secretary CISNEROS. Let me state that number 59 correctly. They are either programs that we are consolidating because we have the authority to do it, programs that we are asking for authority to consolidate—like the McKinney Programs, which would be put into one McKinney Program—or things that we are not going to seek reauthorization for, which can be done in some other way and that will terminate them as freestanding programs but it comes to 59 from the 162 issues that—

Mr. KNOLLENBERG. Do you anticipate a reduction in budget for the future?

Secretary CISNEROS. No, because in many of these cases, the work needs to be done. We just don't want to do it as a separate, freestanding program.

Mr. KNOLLENBERG. Thank you.

Secretary CISNEROS. If I may, I would like to get this to the subcommittee so that you can look at these charts that I referred to.

Chairman GONZALEZ. Mr. Klein.

Mr. KLEIN. Thank you very much, Mr. Chairman. I wanted to welcome the Secretary and congratulate you, Mr. Secretary, on some of the innovative programs, particularly dealing with the homeless, as well as the reforms in public housing, and most especially the use of leveraging of private funds to accomplish some of the purposes of the program.

As you may know, yesterday I introduced the FHA Reform Act, which incorporated three of your suggested changes in the FHA Single-family Housing Program, including increasing the floor and ceiling loan limits. And I plan to offer these provisions as amendments to the committee print at markup of the bill.

I have heard from critics of these proposals that the increase in the FHA loan limits would reduce loan access to lower income home buyers. Although I don't share that view, I would like to hear your comments on that subject.

Secretary CISNEROS. First of all, I can assure you that there will be no diminution of effort where low-income home buyers are concerned. Indeed, our ongoing discussions with OMB and everyone else within the administration have created a rationale whereby the principal reason for the continued existence of FHA is the lower end of market. That is the reason this vehicle exists, as opposed to the private-sector mortgage companies and so forth, insurance companies, because they do not serve the lower end of the market with the aggressiveness that they should.

In the last number of years, where FHA was diminished and denigrated from a priority standpoint in the Department, the American home buyers have paid a price. For the first time in modern American history, the homeownership rate has declined in our country. There always had been a rising rate of homeownership. It has declined, and the principal reason is—when you disaggregate the numbers, lower income home buyers have been devastated. They cannot get into the market.

So there is clearly a rationale for a governmental role like FHA. We take that as a priority, indeed, or advocacy for higher local limits assures that in an environment where FHA must function with financial soundness, that if it can work at the upper ends of the marketplace reasonably, then the fund is sound enough that we have the resources to work at the lower end of the market. So this is a very important step for us in refocusing our efforts at the local lower end of the market.

I might say in the places where we are asking for higher limits, these are not to work at upper middle-class. It is where that is the cost of a house for a fireman or a teacher. In California today, and parts of New England, a fireman, a teacher, cannot participate in the FHA Program because the cost of housing has risen to the point where it exceeds the FHA limits as they are written today.

Mr. KLEIN. I might say the same is true in New Jersey.

Would it be fair to say that what increasing the loan limits does is open up FHA to people in the categories that you just mentioned and, at the same time, strengthen the FHA Program and thereby increase the access for those in the lower income groups as well?

Secretary CISNEROS. You have stated it precisely correctly, sir. Those two things in the two phrases of your sentence are exactly the rationale for this action.

Mr. KLEIN. Having thrown a bouquet at you, may I take the risk of raising a matter of critical concern, and that is with the management of HUD. And it is not my purpose to continue or to repeat any criticisms that have already been made, but one of the concerns that I have is the slowness with which the FHA, and HUD in particular, spend the money on programs. I have had instance after instance of both grant programs and entrepreneurs who were working on nonprofit, low-income housing, make application to HUD; and they get roadblock after roadblock thrown in front of them with regulations that are unnecessary, irrelevant, and counterproductive.

Isn't there some way in which we can reduce that red tape so that we can get the money out faster?

We have authorized the money. We have appropriated the money, and yet, I understand that we may in some programs be as much as 3 years behind; and that is not doing anybody any good.

Secretary CISNEROS. Congressman, the issue you raise is the absolute bane of my life. The answer is, yes, there are things we must do. We are reorganizing our field offices. We have a notebook thick with deregulatory suggestions of ways in which we can hack away at the underbrush of regulation, which we are acting upon and setting out incentives for each Assistant Secretary to do that in their respective areas.

We are rethinking the fundamental structure of FHA and public housing in order to really clear the decks for them and get them to operate as barnacle free as possible from the multiple layers of regulation. This is an ongoing process.

I hope that, over time, you will see a change in the behavior which you have described and is all too real.

Mr. KLEIN. Thank you, and I might say that I have received numerous suggestions from people as to how to strip away some of those unnecessary and irrelevant regulations. I would be very happy to pass them to you.

Secretary CISNEROS. Congressman, let me also thank you for introducing the bill yesterday. I appreciate that. I do know that you have some concerns about the no downpayment proposal. I have heard that. And I look forward to visiting with you about that.

I understand you have some philosophical beliefs that homeowners should have an equity stake always. I want to say that one of the most successful programs for creating homeowners in the country's history was the GI bill, and there were programs in the GI bill that did not require a downpayment and were very, very successful and didn't result in foreclosures or anything.

So I look forward to visiting with you about it, because I do think that, chosen carefully, that need not be an impediment to successful homeownership.

Mr. KLEIN. I would be delighted to do that.

Thank you, Mr. Chairman.

Chairman GONZALEZ. Mr. Lazio.

Mr. LAZIO. Thank you, Mr. Chairman.

Good morning Mr. Secretary. Congratulations on your inclusion among the top 50 of *People* magazine. I want you to know that some of us respect you for your mind.

Secretary CISNEROS. Congressman, that underscores what you all know; that is, that you can't believe the press all the time.

Mr. LAZIO. Before me, I have the proposed section 602(b) allocations for VA-HUD, and it looks to me as though there was a reduction of \$36 billion. And you were making mention of the fact that you wanted to expand some of the core programs.

Can you reconcile that for me; how you plan on doing that with respect to the reductions on the section 602(b) allocations?

Secretary CISNEROS. Congressman, I don't have that level of detail at this time, the section 602(b) implications for us. I will be happy to get that answer for you or meet with you or have one of our staff meet with you, but I don't have that. I will get that for you.

[The information referred to can be found in the appendix.]

Mr. LAZIO. You also mention, Mr. Secretary, the fact that you were in the process of eliminating 59 programs. I take it there is some savings achieved in that elimination or consolidation process.

Will you be submitting legislation illuminating that? Will you put your name on that, as opposed to just not asking for reauthorization? Will you actually be sending over legislation, and when might we expect legislation to eliminate some of these programs?

Secretary CISNEROS. As I said, there are at least three different ways that those 59 will be terminated or merged. One is areas where we have the authority to do some consolidation administratively; second, there are aspects of this legislation that ask for that kind of merger; and third, areas where we will not seek reauthorization.

In those where we would not be seeking reauthorization, I would not expect that they would require a separate piece of legislation indicating what we are not doing. But I will be happy to sort of lay them out for you, if you would like, the programs whose authorization has expired that we will not be seeking reauthorization for.

Mr. LAZIO. Is there a reason why we simply would not eliminate those programs through legislation, as opposed to just keeping them out there but not—and authorized through whatever, when that authorization would lapse?

Secretary CISNEROS. Let me try to look at what the legal status is. If something is not reauthorized beyond a particular year and we do not seek its reauthorization, I think that has the same effect as its elimination. But if there is a different legal interpretation that somehow it is on the books and it would exist in some status and that we need to affirmatively eliminate it, then I will be happy to bring that.

I will get you a response on that.

[The information referred to can be found in the appendix.]

Mr. LAZIO. Thank you.

One last question, if I can. There has been discussion, at least as related to me, that HUD is developing a reg that would withhold or leverage certain assistance, CDBG housing assistance on those communities that don't have an antidiscriminatory plan.

Secretary CISNEROS. Fair housing plan.

Mr. LAZIO. And I understand former Secretary Kemp attempted to implement something similar to that, but was unable to do that before this panel.

Do you have a legal opinion with respect to your ability to do that?

Secretary CISNEROS. We are in the initial stages of what is called the "consolidation of community plans" in which all of the things that we now ask separately of communities would be asked for in a consolidated way.

Now, one of the elements of what would be asked of communities would be some statement of their fair housing strategies. In our discussions internally, we are not to the point—let me make clear—not to the point where we are saying if you don't have a fair housing plan that meets some satisfactory hurdle, then you endanger your other funding. We have not crossed that bridge; we are not at the point where we are saying that, though we do believe a fair housing plan with some stringency is an important part of a community's plan for its housing. So that matter is still under consideration within the Department.

Exactly what form and what legal heft would be required to withhold CDBG or some other resources is not yet resolved.

Mr. LAZIO. Needless to say, we want to ensure sensitivity, that there are not unintended consequences; namely, those people we are most trying to help, low-income families are harmed by that potential reg. Thank you very much.

Secretary CISNEROS. Let me just say, if I may, that the document that we carried up a moment ago, which I believe the staff now has, on page 40 lists the 17 areas, and several pages beyond it lists the 59 programs for merger or for termination. They are listed.

I will try to get you the answer as to whether legally we are on some firmer ground by seeking actual elimination, as opposed to letting the authorization lapse.

Mr. LAZIO. I hope you will do that—if the authorization is extended beyond the period of time which you are talking about, that you will come forward and actually associate your name with the elimination of some of these programs that have outlived their useful life and for which there are higher priorities.

Chairman GONZALEZ. I might add, of course, the problem there is the NIMBY factor, "not in my backyard." And that is what we went over with—in the case of Secretary Kemp's suggestion, which was voted down, incidentally.

Mr. Watt.

Mr. WATT. Thank you, Mr. Chairman.

Mr. Secretary, I am trying to make a concerted effort in my office to go through your proposals, and the proposals that have been put forward by the committee chairman and when I cosponsored, and try to separate out the things that I really feel strongly about and sift out the advice that I am getting from those who have a vested interest in maintaining things as they are, just because they are that way now, and those proposals that have the potential for improving the situation.

And I will continue that process and I appreciate all of the input your staff and you have provided to help us in that process.

There are three areas that I would like to make some inquiry about today, if I have time to do that, and I will try to do that very quickly.

First of all, we have got some concern raised by some people about the process of notice of funding availability under the HOME Program and the transition that your office apparently is going through to change the notice of funding availability criteria—not so much that the process and the criteria don't need to be changed, but the pace at which that is taking place and whether the merger of those criteria with CDBG notice of funding and some other programs might demonstrate a lack of commitment by HUD to the HOME Program.

I wish you would address the Department's commitment to the HOME Program and help me be reassured that the process of changing the notice of funding availability process won't result in some existing programs losing continuity but be allowed to proceed in an orderly fashion.

Secretary CISNEROS. Yes, sir, Congressman, our commitment to the HOME Program is total. We believe in the program, want to see it succeed and, you know, work it to the max.

The changes that you referred to are simply to try to simplify and make the HOME Program more usable—one of the difficulties with the HOME Program over the years has been the complexity of it—to try to make it more simple and more straightforward. But I can assure you there is no intent to diminish our commitment to the HOME Program or to make it more difficult for people who are already beneficiaries and users of the HOME Program.

We did ask for somewhat less resources than the previous year. The previous year we asked for \$1.2 billion and this year we asked for \$1 billion; and what I just indicated in my remarks to the chairman, the budget amendments that we are discussing with OMB, would take it back up to \$1.1 billion. So we are halfway to getting it to the full level that we had last year.

The HOME Program has tended to spend somewhat slowly. We had relatively small percentages expended, and that is the reason why we felt we could use that money for another purpose this year; but we understand the congressional priority of the HOME Program and our own commitment to it is complete. It is total.

Mr. WATT. I could elaborate on that and use my own 5 minutes, but I think I better go on to another concern that I have, and that has to do with your COMPAC Program, the policing part of this program.

And one part of the bill which you recently introduced in particular deals with the ability of housing authorities to deny admission or evict tenants or basically ban the possession, use, and discharge of firearms in and around public housing. We just got through passing a ban on 19 assault weapons on the House side by a two-vote margin. And while I supported that ban and support bans on weapons in general, one of the things I cannot help being concerned about is that we are about to set up in our society a two-tiered attitude about the possession of guns.

Discharge and use, I am fine on, but possession—banning possession of any firearm is a radical concept. And I wish you would talk to me about my concern, because I have this feeling that those peo-

ple who were adamantly opposed to banning those 19 assault weapons are going to be on the opposite side of this issue because of who we are banning from having these guns. I am very conflicted about this, and wish you would try to set me at ease a little.

Secretary CISNEROS. Congressman, we are not proposing a ban on weapons in public housing. What we are saying is this: There may be some instances when a local housing development would want to vote, the residents themselves, that they want to ban guns in that place. Or there may be a case where an entire public housing authority chooses to vote that it wants to ban weapons.

What we are saying is that we would not want State and local laws to preempt the authority of people to vote to be able to eliminate weapons if they so choose.

Mr. WATT. Mr. Secretary, my time is up, but I want to tell you that if we pass this law, there will not be a public housing authority anywhere in this country who won't adopt such a policy.

And I, personally, don't have a big problem with it, if we were saying that to everybody in the country. But to say to one part of our citizenry, we are going to ban all firearms, which I think will happen if we give that authority—

Secretary CISNEROS. Congressman, I beg to differ with you. I don't think it will happen.

First of all, the reason we are not suggesting that we ban firearms is that because there are many parts of the country—for example, we have 3,400 housing authorities and some of these are in Laramie, Wyoming; they have a hunting culture. Many of them in North Carolina, smaller communities, they want to have weapons.

Mr. WATT. They want some people to have weapons. That is the point I am making about—I will watch very closely the lineup of supporters on this issue, and how the lineup differs from the lineup of supporters and opponents on the general assault weapons ban.

We really can't resolve this today, but I want to run that flag up and let everybody know in advance that it is unacceptable to have two different standards about that. And I can see the folks in Laramie, Wyoming, saying to hunters and recreation users, you can have guns, and still the housing authorities saying, we won't allow you to have them or possess them in public housing.

It may sound inconsistent to you, but in the hobgoblin minds of some of the people that I know around this country, that will be the furthest thing from their minds, seeking consistency on this issue.

Secretary CISNEROS. We are not banning weapons in public housing. But if the residents of public housing themselves, and maybe we could clarify in this law, proposed law, that it would have to be by a vote of the residents themselves, not just the housing authority managers or the housing authority board, but the residents themselves would want to vote that they want to ban guns in a particular place, then State law and local law ought not prevent them for being able to do that. That is the point of this provision.

Chairman GONZALEZ. Here is my question: In your explanation about what is in your bill, I don't believe that proviso as you explained it is in your bill. And that is because I checked with counsel here, Mr. Ceja, and he corroborates that that is not in the bill. I believe that is in Congressman Ron Wyden's proposal.

Secretary CISNEROS. Ron Wyden's provision is the provision that would allow the vote.

Chairman GONZALEZ. It is not in your legislation.

Secretary CISNEROS. What is in our legislation is the provision that would not allow State and local law to preempt that vote.

Mr. WATT. Mr. Chairman, I am looking at page 80 of the bill that was introduced. Section 28, it says "Notwithstanding any State and local law to the contrary, a public housing agency or other owner or lessor of housing assisted under this act may utilize leases which ban the possession of firearms in and around the housing. The possession, use, and discharge"—use and discharge I have no problem with—"possession of firearms in and around the housing," that is the language that I am reading.

Secretary CISNEROS. And my point to the Congressman was that one helpful amendment might be to say "may upon a vote of the residents in a development," or something like that. That would be a helpful amendment. But, again, our whole point in that phrase is to prevent State and local governments from saying, even if you want guns out of here in this development, we are not going to let you vote on that and if you vote, it is not a binding vote.

Chairman GONZALEZ. Let me pass on to you what happened to me after the recent vote on the assault weapons issue. In fact, I was the only one in my area there that voted for the ban.

But I had this anguished call when I came in from the weekend. He was not a constituent. He was in the adjacent district. But he said, listen, I have been asking questions and your office tells me that what you voted for would affect me. I have a 15-year-old son, and by golly he is an honor student in school, and I don't see why you will deprive me of letting him have this rifle that he uses to shoot deer. He does a good job of shooting deer and all it has is five rounds of ammunition. If that was an assault weapon I just wondered what kind of condition the poor deer that boy shot with five rounds would have been in. I am sure it would not have been edible.

Mr. FRANK. The implications of this bother me. And I am wondering, are there any other examples where we let public housing authority residents vote to suspend a State or a city law or a right that an individual has under a law? And when we come back—we are going to have to go vote—I would be interested in that.

Are there any other cases where we put on the vote of the housing authority residents and they can say a right which other residents of this State or city has will not exist for a resident of public housing. Because I think that is the problem that bothers me and there has always been this view that you don't put unconstitutional provisions on gifts.

Are we prepared to say that there is no constitutional validity at all to the right to own a gun under any circumstances? And I worry about the precedential effect of saying that a right that everybody else in this city has, you are going to lose as a condition of your moving into public housing authority. The fact it is voted by others when we are talking about individual rights, the fact that somebody voted to diminish them has not given me very much comfort.

Chairman GONZALEZ. If the gentleman would yield back, we have not had the second bell, I believe.

Mr. WATT. Thank you, Mr. Chairman. I am finished.

Chairman GONZALEZ. Mr. Castle, we have at least 5 minutes.

Mr. CASTLE. Quickly on that same issue, I just toured a couple of housing authorities in Delaware and in Wilmington a 15-year-old shot and killed a 21-year-old. I saw the unit in which there was a fire bombing of a lady who identified the fracas and perhaps the individual who pulled the trigger. And I mean to a person I talked to there, they would love to have some sort of ban on firearms in that particular public housing development.

I was in an elderly highrise; the same thing. They have a mixed population situation there. I don't know what the legalities of a gun ban are.

I am a cosponsor of the Wyden proposal and I don't know where we are going with it constitutionally, but certainly in a lot of these housing authorities across this country, you would have a 100 percent to nothing vote in many, many instances. So I think it is something that we will be continuing to address.

Do I understand that the mixed population issue has been resolved? If it exists, I guess it is still a problem, but in terms of future aggravation of that problem, it has been resolved?

Secretary CISNEROS. Yes, sir. We have proposed a rule change, and it is in effect and final, which says to a housing authority, please provide all housing for disabled persons and if you have that, you do not mix populations. So we think we have solved the problem. It was torturous, but we think we are there.

But it does also, however, say that we cannot remove people who are disabled who are in elderly housing, but we think that problem can be worked out over time. But at least we don't have additional persons being put into elderly housing.

Mr. FRANK. Will the gentleman yield? I might say that that has been promulgated for public housing. For assisted housing—

Secretary CISNEROS. That is still in the works.

Mr. FRANK. But that should be on the way.

Secretary CISNEROS. That is true.

Mr. CASTLE. On the homeless issue, I just read what you said about the continuum in the area of drug counseling and mental health and these various things. I don't think anybody would disagree with any of that, but we have to look at the expense of it. But it has taken a long time, I think, to just handle the basic housing and other basic needs of those in the homeless population.

And I know that in my State that we have done it basically with a mix of nonprofits, religious organizations and groups. It is a real patchwork and it is very fragile and I am concerned about the government coming in and saying we are going to have a continuum of care and what you are doing is not good enough or whatever it may be, because it has been difficult to get to the point where we are now.

And I would caution against any abrupt changes that would somehow undermine the very positive things that I think have happened in a lot of communities. Not that this is solved or perfect or anything else, but clearly I think it is better today than it was 5 years ago.

Secretary CISNEROS. Thank you, sir. I hear you loud and clear.

Mr. CASTLE. I yield back the balance of my time in light of the vote that is going on.

Chairman GONZALEZ. We will recess briefly to enable the members to record their vote.

[Recess.]

Chairman GONZALEZ. Thank you, Mr. Secretary, for your patience. I am sure some of the members will be back, including, I am sure, Mr. Castle, but we will recognize Mr. Fields.

Mr. FIELDS. Thank you, Mr. Chairman.

And let me also thank the Secretary for doing, in my opinion, a great job as Secretary of HUD, and I want to let you know that I am very appreciative of the service that you have rendered to the country. And you bring a wealth of experience coming from a city and being a former mayor. And I appreciate that.

Let me also thank one of his Deputy Secretaries, Mr. Roy Priest, who had an opportunity to be in a portion of my district recently to talk about economic development and did a yeoman's job. And I thank him.

One of the concerns that I have is the Section 8 Program. One of the problems that I see in the Section 8 Program is that the landowner receives the monies from the Federal Government or from the Section 8 Program, and they do not keep their houses or homes in good repair. And as a result of that, we have a community that is deteriorating, through no real fault of even the tenants to some degree, but the landowner who receives the check from the government but makes no subsequent repairs.

How do you intend on addressing that in this legislation or in rules or regulations that we already have in place?

Secretary CISNEROS. Thank you very much, Congressman. The rules and the regulations and the law are all properly in place. It is a matter of the way we implement and execute at the local level.

You are correct that in too many cases landlords are not keeping section 8 properties up to the level that they should. I have been to communities where I have been shown either in person or by photograph the condition of section 8 apartments. These are landlords who are making money from the U.S. Government who probably wouldn't have been able to rent the apartment but for the section 8. They were, once upon a time, in decent condition because they would not have been granted the authority to be part of the Section 8 Program, and yet they do not maintain their properties. This is a problem.

We are constantly working with the housing authorities who operate the program at the local level. And it is a concern of ours that we be tighter and more stringent about the condition of section 8 rental property.

Mr. FIELDS. I have instructed staff to be looking at regulations in that area, and I understand that there are rules and regulations already in place. You take the city of West Monroe, which is part of my district. The way they deal with it through their housing authorities, they make sure that before the tenant takes possession of the property it is in good repair and the housing authority itself does the monitoring of the facility. And if the facility is not in good repair, then they contact the landlord, and if the landowner choos-

es not to make repairs on the building or the house or the apartment complexes, then they move the resident to another location.

Secretary CISNEROS. They terminate the Section 8 Program. That is right.

Mr. FIELDS. Can we do that nationwide? We see our communities deteriorating and people are getting rich on the Federal Government. And the landowners themselves are substandard as relates to taking care of those particular properties.

Secretary CISNEROS. Congressman, you are correct in your assessment of the way it is happening. The law is sufficient as it is written. The rules are sufficient as they are written. It is up to the housing authorities to execute.

We must educate them and press them and through our management impress upon them the need to act, because these are U.S. Government dollars that are making people, as you say, good money.

Mr. FIELDS. You can in fact pull money from housing authorities, can you not?

Secretary CISNEROS. Yes.

Mr. FIELDS. Why don't we, through your office, make it known that these housing authorities that do not make sure that these homes are kept in good repair by the landowners that they are going to jeopardize their funding.

And on a final note, because I am running out of time, just to reiterate—

Secretary CISNEROS. On this point, before you close out, I will assure you—and Mike Janus is here from our public housing staff. We will put out a letter to the public housing authorities expressing to them in clear language our intent that they strengthen their inspection efforts and that they use the provisions of the law either where landlords are not keeping up the property that they be prepared to pull the section 8 certificates or that the housing authority will be subject to review itself and can lose its right to use the Section 8 Program. We will put out such a directive based on your caution here today.

Mr. FIELDS. I appreciate that, Mr. Secretary.

And finally reiterating one of the things that Mel Watt said, have any of the lawyers on your staff looked at the constitutionality of keeping a citizen from possessing a firearm in his or her home or dwelling. Has anyone researched that from a constitutional perspective? It appears that it flies smack in the face of the second amendment of the Constitution. And if doesn't, I want to know how it doesn't.

Secretary CISNEROS. The general counsel of the Department is here and can speak to the constitutional issues of this. He is Judge Nelson Diaz of Philadelphia who can speak to the constitutional questions of this. Keep in mind, we have not suggested a ban, we have suggested that people ought to have a right—

Mr. FRANK. Would the gentleman yield? You cannot say that. Constitutionally, you are saying that you will empower the people to impose and enforce a ban. Constitutionally, that doesn't make it any different, Mr. Secretary. Constitutionally, you have to be able to defend the ban.

Secretary CISNEROS. The Madisonian problem of numerical majority and minority issue, I suppose. If there is someone who wants the gun who is in the numerical minority and the majority votes that they want to ban them, their constitutional rights are impeded.

Mr. DIAZ. Fortunately, the Secretary has a layman's ability to explain the constitutional prohibitions. The sense of the Constitution in this case is whether or not a State is allowed to preempt the allowance by residents of a housing authority to ban it because of the issues of safety, health and protection, which are overwhelming issues with regard to, in particular, housing authorities like the Robert Taylor homes where it is causing a danger to the health and welfare of the community and the people and surroundings.

There is an overwhelming need because of the health and safety situations that allows that community to begin to decide until the situation is rectified that they can decide, based upon that, to withhold the utilization, and the use of guns in those buildings.

Mr. FIELDS. And I know my time has expired, Mr. Chairman, but if I may proceed just for a few seconds, let me just be candid with you. I mean, the problem that I have in my district is not so much the housing authorities and the housing projects that I have in my district, it is the community in general. You appear to be saying that housing authority has a compelling State interest which would supersede the Constitution because it goes on strict—

Mr. DIAZ. It would not supersede the Constitution. What it is is that we have authority over the housing authorities based upon our agreements and contracts to fund those housing authorities. Based on the funding of those housing authorities, they have the ability to prohibit those uses and particularly in their residents.

Mr. FIELDS. I disagree with you, while you have the right to govern the housing authority, you do not have the right to redress the Constitution.

Mr. DIAZ. We are not governing the housing authority. It is the residents themselves who have decided that they would prohibit the utilization for their safety and protection.

Mr. FIELDS. If the city of Baton Rouge, the city in which I live, if the majority of the citizens of the city of Baton Rouge vote to keep guns out of the city where no one could possess a firearm, I suggest to you that is a violation of my constitutional right and I don't care if 100 voted for it and one voted against it, I would suggest that is an infringement of my constitutional right.

Mr. DIAZ. I would suggest that you are correct.

Mr. FIELDS. Well, then how is it not correct that if I live in a public housing project that that is not correct?

Mr. DIAZ. There is an imminent danger of health and welfare in which we need to protect the citizens from the continuation of killings.

Mr. FIELDS. But there is also the imminent danger in the city of Baton Rouge to protect the citizens from killing. How do you use that standard?

Secretary CISNEROS. Statistics show levels of violence three times higher in public housing than in the general population. In Chicago, the levels are statistically three times the levels of murder,

three times the level of random violence in public housing as against the general population.

Mr. FIELDS. Let me just say in closing,—

Mr. DIAZ. It does show there was a rational basis.

Mr. FIELDS. I understand the Constitution and strict scrutiny and compelling State interest, all of that; how you try to bypass the Constitution by showing some compelling State interest on behalf of the State in protecting the citizens, I understand that.

I suggest to you that it would not hold up in court in my opinion. Let me say that I am going to do everything that I can do, along with my colleague, Mr. Watt, to amend this section of the law. And I would suggest that you in your infinite wisdom do the same before getting it here because that in my opinion is a clear violation of the constitutional rights and I am the one who voted for the ban on assault weapons. I voted for the Brady bill. But there is no way that I am going to vote to take a person's second amendment right away from him totally.

Mr. DIAZ. I agree with you. Can I send you the legal memorandum with regard to the legal parameters and—

Ms. WATERS. Would you send it to everybody, would you?

Mr. DIAZ. Would be happy to. Mr. Chairman, if I may, I will send it to you and you may circulate it to all the members and that way make sure that it gets to all the members.

Mr. FRANK. Unless, Mr. Chairman, that the committee voted that none of us would be able to read it.

Chairman GONZALEZ. Well, we will be glad to provide it.

Mr. DIAZ. Thank you, Mr. Chairman. I will have that sent to you by hand delivery today.

Thank you, Congressman Fields.

Chairman GONZALEZ. And also, Mr. Secretary, to a later point in the hearing when we will have a dissertation from Judge Frank on constitutional issues.

Ms. Pryce.

Ms. PRYCE. Thank you, Mr. Chairman. I welcome the Secretary. I will try to take this to—

Secretary CISNEROS. Mr. Chairman, that is if he is still here. There is a vacancy on the Supreme Court.

Chairman GONZALEZ. I am saying it seriously, if it were at all within the realm of possibility, I would be out there agitating in behalf of the appointment of Mr. Frank. It would certainly add to the level of service that I have always felt was expected of the Supreme Court.

Mr. WATT. Mr. Chairman, they might scrutinize his writing, however, on this. I encourage him to be careful.

Chairman GONZALEZ. Ms. Pryce.

Ms. PRYCE. Thank you, and I can vote to confirm Mr. Frank, as well.

But, Mr. Secretary, on a completely different note, there is a concern in my district, and I am sure it is evident in others, and let me start by saying that most of the FHA single-family enhancements proposed by the administration will be insured by the General Insurance Fund. And unlike the Mutual Mortgage Insurance Fund which insures single-family mortgages and is self-sustained by the premiums, the General Insurance Fund is supported by ap-

propriations of Congress. Currently appropriated \$147 million from that General Insurance Fund in four equal parts and during the year and may not exceed those limits for each quarter.

During the last year, the FHA multifamily products have generated a great deal of business for HUD and require commitments of credits from the General Insurance Fund. Consequently, commitment levels are reached long before the end of each quarter. And this situation presents a problem. And it is a problem that I get calls in my office on a weekly basis.

Further, the overall budget resolution will amount to some \$30 billion less than what the President had originally proposed. I believe these FHA enhancements may be well-intentioned but given that they must be insured under the General Insurance Fund, which HUD indicates will be in the red long before the end of this fiscal year, can we afford the additional credit subsidy for these new fiscal year 1995 initiatives when we are finding ourselves in deficit for fiscal year 1994 programs? And if so, how can I respond to my constituents who are facing this?

Secretary CISNEROS. We hope within the next 10 days to 2 weeks to have before the committee a request for authorization of an increase in these limits. We are working with OMB now on the problem of the FHA credit subsidies running out and need to identify offset cuts. It is not clear whether there would be another supplemental appropriations bill, so we need to act on this very quickly, but the point is, we intend to have legislation before you over the next several weeks that would increase the limits. This has been a very active year. And both Ginnie Mae and FHA are at risk of exhausting their commitment limitations and will need some action.

Ms. PRYCE. And what do you see are the chances of that coming through? That is authorization, not credit subsidy?

Secretary CISNEROS. That is correct. We believe we can be successful on both counts. It is in no one's interest to allow these limitations to have the effect of putting these two entities out of business this early in the year.

Ms. PRYCE. However, if that is not successful, do you think it is still advisable to go forward with these new proposals when we are still so far in the red?

Secretary CISNEROS. Yes, we do believe it is important to prepare ourselves for the long run. This is a momentary crisis that demands action. And I will address the question of what happens if we are not successful in due course. We believe we can be successful and we will have that legislation brought forward forthwith.

Ms. PRYCE. Thank you, Mr. Chairman. I certainly hope this is given your full attention because it is a big problem for me back home and I am sure other members are suffering from the same kind of constituent complaints.

Mr. Chairman, may I ask permission to submit further questions for the record in writing?

Chairman GONZALEZ. Oh, yes.

Secretary CISNEROS. I hope to have that legislation here in the next 10 days.

Chairman GONZALEZ. I ask unanimous consent that all members of the subcommittee, those present and absent—some of the mem-

bers who were here earlier, told me on the House floor they would not be able to come back—but they will have questions in writing. [The questions referred to can be found in the appendix.]

Chairman GONZALEZ. Ms. Waters.

Ms. WATERS. Thank you, Mr. Chairman. Mr. Secretary, we are delighted that you are here. And I am indeed extremely impressed with the leadership and the direction in which you are going. And I would like to commend you for taking that leadership to do some consolidation and to focus in areas where you have demonstrated that we need to give some attention to.

I would like to talk to you about 101 things but I cannot, so I am going to try and confine my discussion in two areas. One on rent reform. I have introduced H.R. 4159, and you are moving in this area also, but I think we differ somewhat. And I would like for us to see if we cannot come up with a strong rent reform portion of this legislation so that we can do something meaningful.

Now, as I understand it, the Department's rent reform proposal for public housing residents limits it to those currently unemployed. What about those currently employed public housing residents who have jobs and work and their rent goes up because of that earned income? Should we extend the break on rent to these people because that is exactly what my proposal would do with the 20 percent exclusion, and so forth.

Secretary CISNEROS. The biggest effect is the big jump when people who are bringing zero income suddenly work and bring in a substantial income. That is the big effect that needs to be addressed and that is what we tried to address, people who are currently unemployed. I agree with you that if people are now working and they get a raise, and they report that additional income, that their rent would go up and that that is not right.

And I am concerned that we not create two different sets of incentives, one for people who are not working and one for people who are already working. And so I am not opposed to the concept that you introduced. It just becomes a question of money. Money that is foregone to the housing authorities, because they do get some rental increases from this. But I cannot disagree in concept with you that we ought not treat differently people who are not working.

Ms. WATERS. I think my proposal is consistent with what you have said about creating this mix in public housing. And if we are to upgrade public housing, we need to support working families.

Secretary CISNEROS. Absolutely.

Ms. WATERS. And if we have more people working, eventually, we do increase the amount of money that the housing authorities can take in rather than, you know, this disincentive to work by not in some way supporting that. And I would like very much to work closely with you on it because the proposal that I have, I have been working with managers of public housing authorities and I think we have a consensus that is developing around the country about my proposal and I would like for you to be with us on that.

Secretary CISNEROS. As I say, I have nothing in principle in opposition to the concept. You are exactly correct that we need to do everything we can to encourage people who are now working to stay in public housing just as we need to encourage people who are

not working to work. So we are completely in sync. It is a matter of the Office of Management and Budget analyses of the budgetary impact of what we think——

Ms. WATERS. We will work with them. And let me point out one other thing of what I discovered in my years of working in the housing authorities in Los Angeles, and I don't know if it is a HUD policy, if it was a local housing authority policy. As we tried to employ the young unemployed, mostly males, that are hanging out in all these public housing projects, when we have work to do and when we are revitalizing, if they are not on the roll, an argument was made that they were not public housing residents, so they could not fit within programs we were trying to create to hire the residents.

Secretary CISNEROS. Right.

Ms. WATERS. The reason they are not on the roll is because——

Secretary CISNEROS. Of the way the rent is calculated.

Ms. WATERS. Right. You see what I am saying. It is a Catch-22, and if we want to employ them as you have indicated, then they have got to be residents. They have got to be on the rolls, as I understand it, then we should certainly provide these incentives.

Quickly, let me move to section 108.

Secretary CISNEROS. Let me say on that, you have introduced legislation, Mrs. Roukema has a bill, and Mr. Knollenberg has a bill, and we look forward to working with the committee staff on trying to rationalize the various elements of this in trying to arrive at a committee consensus on this.

Ms. WATERS. The section 108 loan guarantees, we keep talking about that. But the cities have the ability to do something else with the money even after they present proposals for economic development that HUD signs off on. They come back and make changes and they say we are going to take and put it into housing and then argue that housing is economic development. We have got to do something about that.

I do think you are going in the right direction recognizing that you can't have viable communities unless, indeed, you have the retail and the commerce to go along with all this housing that is popping up all over the place. Can we take a look at section 108 loan guarantee monies and try and tighten the criteria so that we can successfully direct it into economic development and let's have this separation? We have housing monies. Let's separate that out and let's not just give more housing money under section 108 loan guarantees and really try and isolate that money for economic development to the extent that we can.

Secretary CISNEROS. I appreciate the point. And, again, whatever help you can give us in this direction, we would be open and appreciative, because you are right. We need programs at HUD which are specifically targeted to economic development. Here is the reason why we had to create the LIFT idea, just to take a parallel example. CDBG today is used by communities and they do not see something like a development of a retail district as something that ought to impinge on their CDBG priorities.

In other words, when they have 15 million dollars' worth of community development block grant to the city, they have 100 million dollars' worth of demands on that project. And a community devel-

opment project that is complicated doesn't get into the mix. The economic development falls by the wayside. We have the HOME Program, we have CDBG, we have other initiatives targeted to housing. We do need some things that are purely job creation, retail development, economic development, manufacturing jobs in our central cities and so anything you could do to purify section 108 in that way would be helpful.

Ms. WATERS. I will come up with some language.

Secretary CISNEROS. I know that you had a personal experience with this in Los Angeles with your negotiations with Mayor Rioridan which resulted in a split in what previously had been a plan to devote that money to economic development—

Ms. WATERS. The city council didn't understand section 108. They took 60 percent of it and dumped it into the housing, because some of the housing people are a little more sophisticated. And when I started to track the money we finally worked out a 50-50, but still it is not right to come in with a project and then go back and somehow amend it and then take the money and use it for housing. And I really want to protect against that.

Finally, because of my interest in economic development and my strong belief that this is how we can turn these industries around and my city in particular, what can we do, what can you do, to increase interest with the lending institutions for CRA projects in economic development and business development. As I understand the law, the Community Redevelopment Act, they can get credit for commercial development. They don't seem to know that.

Now that they have caught on and we have pushed them, they want to throw up housing everywhere, even in places where we have vacancy rates now. And where the local community does not require rezoning, they are just throwing it up in Los Angeles on our major thoroughfares and I want to try to encourage some of that in business development. What can you do to help us?

Secretary CISNEROS. I don't have a specific response other than that we need to make sure that CRA is interpreted as economic development loans as well as the kind of things that they are doing. As you know, you asked me to work with you in that situation in Los Angeles. I did call the banking institution about the housing situation.

Ms. WATERS. But don't you have some HUD money in a project like that? Wouldn't some HUD money go into a project like that and some tax credits on other kinds of things?

Secretary CISNEROS. Yes.

Ms. WATERS. Can we do something about that?

Secretary CISNEROS. Yes, I will be happy to work with you.

Ms. WATERS. Thank you.

Chairman GONZALEZ. Mr. Grams.

Mr. GRAMS. Thank you very much, Mr. Chairman.

Mr. Cisneros, it is a pleasure to have you back before the subcommittee. I have an awesome responsibility to hold down this whole side by myself.

You mentioned the LIFT Program and I would like to ask you a little bit about LIFT. Mainly, the Department's community development proposals highlight newly created national leveraged investments for tomorrow for the LIFT Program. It is going to re-

quire an additional \$200 million in new spending and appropriations for a UDAG-type program that provides subsidies to leverage private sector investments.

What would be some of the qualifying factors in trying to determine an eligible private sector project? And also, you know there are similar State and local efforts. Is this saying that those are failures and the Federal Government is going to be able to come in and do better where locals have failed and maybe come and try to usurp some of the local authorities in this area?

Secretary CISNEROS. First of all, no, it is not a statement that they have failed. It is a statement that frequently they do not have the missing ingredient, which is some funds to be able to put into the mix as catalyst to leverage additional funds.

Everyone who works in communities, as I know you do, sees areas of communities where what is finally needed is that additional spark of investment in a private opportunity that makes a private development possible that would otherwise not occur. The UDAG Program was a very successful program. It took some hits because of some highly visible failures; big hotels and shopping malls that failed. And, therefore, it ended.

But when we did, when we ended it outright, just killed the UDAG Program, it would eliminate any possibility that the Federal Government could be on hand to help with economic opportunities and job creation in the cities.

Now, we are not proposing a reinvigoration of UDAG. We are not proposing that these big shopping malls that were done or hotels that were done—in my own city we were successful. We had some successful efforts, as the chairman knows, with UDAG. We are proposing instead smaller neighborhood-oriented job creation in a central city area where the mix of job creation is essential to make the neighborhood and housing programs work.

So, to answer your question, what are the kinds of eligible activities? What are the criteria? It would be where we have the opportunity to build a neighborhood district. Congressman Barrett, for example, the area around Marquette University where they are attempting to invest in both housing and in economic development. You have talked to me about this. It is a classic for the kind of area where the LIFT Program would work.

Now, this is a small-scale starting point. In 1976, when that administration proposed the UDAG Program for the first time, within the first several months after coming to office, they proposed \$400 million for the UDAG Program. We are proposing half that amount, almost 20 years later so the amount of money is small in comparison to what they did then. But we do think we need to have some resources to work at the business of neighborhood opportunities, neighborhood businesses, manufacturing that can be attracted to central city areas to create jobs, retailing centers along neighborhood strips. The kinds of situations, in closing, that I described a moment ago when I spoke of Mayor White and Cleveland who tells me he cannot make his side streets live with housing investment while people see the deterioration on the arterials in the cities and we need tools to work with.

Mr. GRAMS. Why does the Federal Government believe it can do a better job than the State and locals and are there going to be re-

strictions? In the past some of these funds have been accused of being abused. Is there going to be restrictions on these properties?

Secretary CISNEROS. There will be restrictions. The programs will be competitive so that only the very, very best will be funded. It is not that we believe that we can do a better job than State or local government. It is that they need that extra spark that is the resource which allows the Federal dollar to do what cannot be done with other resources.

For example, we can do with this money some of the infrastructure development that no other partner in the development might be able to do to allow a neighborhood development to be done. And that is the way the UDAG Program was used so effectively. This will be smaller scale, neighborhood-oriented, but accomplishing the same kind of catalytic role.

Mr. GRAMS. Thank you very much.

Thank you, Mr. Chairman.

Chairman GONZALEZ. Mr. Barrett.

Mr. BARRETT. Thank you, Mr. Chairman.

Mr. Secretary, I applaud the positive efforts that you have made on many different fronts. As you are aware I am sure, I represent Milwaukee which is the home of a major private mortgage insurance company that is very concerned about jobs. I am very concerned about some of the proposed FHA changes.

One of the questions that they have raised is whether the Department's underlying assumption that there are less—or fewer defaults for higher income, higher value homes, is true. And I would simply ask the Department if you could get me the information which would strengthen your case on that issue.

But I would like to go beyond that and accept as true that perhaps there is a lower loss on higher value homes. The concern I still have is, if there is money to be made in higher value FHA homes, that to me does not automatically mean that the government should be doing it. I think that the private sector has been doing it. And it seems to me, because of the need for cross subsidization, you are saying we are going to take these private sector jobs and move them from Milwaukee to Washington and that is a real concern for me.

Secretary CISNEROS. First of all, when we increase the loan limits to the level that we are proposing, \$172,000, it is not as if we are getting into the upper ranges of housing values. In many communities now, \$172,000 is a lower middle income home. And as I said earlier today, firefighters in Massachusetts, New Jersey, California, New York, teachers, cannot utilize FHA Programs because any housing that they would aspire to is above what those limits are. It is not as if we are going into the stratospheric upper income housing market. We are just seeking to operate at a level that is slightly higher than lower middle-class today.

Second, if FHA is going to fulfill its mission, which is to operate aggressively at the lower ends of the marketplace, and at the same time be a financially solvent fund, it needs to be able to counterbalance some of what we do at the lower ends of the market with some of the operations that yield results at that level. In other words, it is unreasonable to ask a government entity to perform as a business, to be entrepreneurial, to be financially sound and leave

it only the bottom of the market to work with. It cannot work. It cannot be done.

And financially, it will result in so much caution that we will not accomplish our fundamental mission, which is to really be out there and take some risks—which is what insurance is. It is, by definition, risk, acceptance of risk—at the lower end of the market.

Mr. BARRETT. But I think that by saying that we have to get into higher income homes, we are not facing the reality. The reality is that perhaps this isn't the moneymaking venture for the government or perhaps it isn't a break-even issue for the government. But the other concern I have is that I look at my own area, and the homes that are higher prices, obviously in Wisconsin they don't come close, thank God, to some of the prices around here and New York and New Jersey.

But the homes that are pushing that limit are the homes in the areas where you have more segregation and people who are, frankly, trying to get away from the urban problems. And so my concern is that we are becoming the department of suburban development more so than the Department of Urban Development with this program. Maybe that is something that we want to do, but I think we are pushing the values higher in those areas that are away from urban blight and I would like your response to that.

Secretary CISNEROS. Congressman, I can get you the numbers, because I recently cited them to the Senate committee on the oversight of the GSEs, and when we looked at how the GSEs do in the percentage of their loans that are central city, or that are to lower income people, or to special populations, meaning African-American and Hispanic populations, FHA today is better than the GSEs and the general marketplace on all counts. We are doing more urban investing. We are doing more low income, and we are doing more special populations. GSEs, I think, like 2 percent of their activity is with African-Americans. FHA is up around 9 percent.

Mr. BARRETT. I agree with that and I applaud that. I think we are doing a good job, but maybe another approach would be to say to those private companies who are not doing it, that we want to you do it.

Secretary CISNEROS. But your earlier point was perhaps we ought not ask this agency to perform in a revolving fund way, but that that would be a whole different policy discussion. That would be a dramatic departure for the government. I think it is important that we try to make this, for reasons of budget, as self-sustaining and sound a fund as we can. And this minor adjustment that keeps pace with the cost of housing and still keeps us at the lower end of the marketplace is, I think, the right thing to do.

Chairman GONZALEZ. Mr. Frank.

Mr. FRANK. Briefly, if I could, first to pick up, I would assume that the limit increase would not affect Wisconsin at all. And as far as Massachusetts is concerned, not having the limit would have the effect that the gentleman from Wisconsin is talking about. I have communities which are trying hard to maintain some economic balance, which are trying to keep lower and middle income people in there. And if they don't get this kind of help, they can't. We are talking about it only regionally. And this is one of the cases where we take the flexibility that we can. No question, the same number

in Wisconsin could have a differential effect, but in Massachusetts communities that are trying hard to maintain social and economic balance need this kind of FHA increase.

Two other points. With regard to the homeless——

Secretary CISNEROS. May I interrupt because Congressman Barrett is leaving and I want to add to your point, and that is for Milwaukee the increase would be to \$121,000, the way the formula would work. That is what it would mean in Milwaukee which is hardly the upper range where houses are selling.

Chairman GONZALEZ. If the gentleman from Massachusetts would yield. We have 2 minutes. If you want to come back and the Secretary is——

Mr. FRANK. I don't want to hold him, but let me leave him with a couple of quick points.

Chairman GONZALEZ. He would be glad to come back.

Mr. FRANK. Can you come back?

Secretary CISNEROS. Sure.

Mr. FRANK. All right. I will come back.

[Recess.]

Chairman GONZALEZ. The subcommittee will come to order.

Mr. Frank.

Mr. FRANK. Thank you, Mr. Chairman. Mr. Secretary, I want to thank you for the issuance of the regulations with regard to mixed housing. And I was particularly pleased, in fact I am going to make a notice in my district that on page 12 of your statement you highlight the 5,000 first-time section 8s for people with disabilities. Because that enables us to keep our promise that the separation that will come from mixed housing will not result in any diminution of housing for people in need.

I want to talk about the homeless issue, and I think the attention you have given homelessness and the way that you have worked with it has been inspiring. It is the one thing that America ought to be doing. This subcommittee voted to try to deal with it and we read periodically, and we know that we have to get people out of shelters, but there are always going to be shelters, but I think it is a disgrace for us that there are people who would rather stay out in the cold than go to the shelter because they are afraid of what might physically happen to them in the shelter. These are American citizens. We ought to put real cops in the shelter. And until we do that, we are morally deficient.

We voted, I believe, in this subcommittee under the chairman's leadership to authorize the use by local communities of funds to pay for real police officers in the shelter and I wish you would do that. This is a case where you frankly leave the great majority of poor people to be victimized by a smaller number of poor people. There is no justification for that. I would urge that that be done. And shame on us if we have people who are afraid to go into shelters, but we know it is a fact and I think we can diminish that.

Two other substantive concerns. One, modernization. I very much agree that we ought to be thinning out these housing projects. We ought to take this opportunity to constantly remind people what we are saying. The problems that exist in public housing were primarily caused by very bad public policy because this society didn't value poor people well.

In other words, it is not the poor people's fault. If you take Columbia Point or Cabrini Green. Somebody had this brilliant idea and let's take all the people in the society with the most problems and jam them all in on top of each other and let's see what happens. And it turns out, it is not very pleasant. We wanted to build them on the cheap and that is why they get put in that situation. I am supportive of this and because it does seem very clear to us that you and your colleagues have a genuine commitment to housing the poor, those of us who have supported public housing, led by the chairman, who has been the staunchest supporter of that resource, many of us were prepared to give you the flexibility to work with these things. I am glad to hear you say the one-for-one replacement is essential.

The last thing we need to do is turn people away. As unattractive as public housing may look to many people, there are still a lot of people living in it voluntarily because it is the best thing they can get. If you diminish the amount of public housing, presumably these people will be living worse, not better. Nobody said, geez, I think I will punish myself and I will move in here. We need to do that.

What I am worried about is that it does not come at the expense of modernization of the right sort. Forcing people to fix up buildings that shouldn't have been built in the first place is a mistake. But modernization is very important to protect this. And I count on you to guide us so that we are not penalizing the modernization.

And this is particularly important because of our budget process. If it turns out that because of pipeline issues, we could temporarily depress the flow to modernization without hindering the work pattern, we then have to work together to make sure that that doesn't get built into a lower base from which we can never come back up. And that is part of the problem with the way this thing works.

If we say, look, a temporary slowdown or reduction won't have a negative effect because we are going to speed up the pipeline later on, the problem is that gets frozen into our base. I think we have to be very explicit if we do anything like that on the point.

Secretary CISNEROS. I think you make a very good point, Congressman. And the chairman in Chicago raised this with me in very clear language that the concern was that in the effort to use a stream of modernization funds for replacement and that that replacement took the form of debt service on money that was borrowed to do replacement at the front end, that we not then short-cut the modernization process. And I think we will have to have a discussion with your staff and the members about perhaps some limits on what percentage of modernization money could be used for replacement or debt service.

Mr. FRANK. We don't want to be rewarding the worst at the expense of the well-managed and we will do that if the money all goes to the worst. I think one thing that our friends in the advocacy community have to understand, and there was a recent article, and I forget which paper, objecting that we were diverting money away from the poorest of the poor by things like rent reform and other things we are talking about.

And our friends have to understand if we can't do a better job of an economic mix, we are not going to have the political and so-

cial support we need to help anybody at all. A program that becomes only for the poorest of the poor, even given the lack of resources that might want you to go that way, if it was only for the poorest of the poor, on the floor of the House and in reality it is simply not going to work as well, and while we want to put most of our resources there, we have to think about maintaining support for it across the country, and having a real liveable situation or else we lose it.

Secretary CISNEROS. I will tell you this, Congressman. I believe I have learned a great deal over the course of last year and particularly the last month that I have had focus on the Modernization Program about the need to put more money into modernization. We need to do that. But it is hard to put it all into modernization when we see the worst things and we cannot get to them. It is like pouring good money into holes. Pouring good money after bad. And so I think the truth of the matter is if we can have the flexibility to do some of this replacement, and figure out how to do the replacement up front, we will ask for more money for modernization because people won't see that as wasting money.

Mr. FRANK. We understand that the biggest problem is that this country has got to understand that we cannot continue to make expenditures on the military and related national security issues as if the cold war was still on and have enough money to do anything else decently. And the problem is that you have been given too little to do too much.

And we understand that. But your life is going to be a constant situation of moving money into a long neglected area and reassuring people from whom we are moving it that it will come back to them some day. I hope that we can break out of that box, and I appreciate it.

The last one is this anguishing one on the guns. I differ a little bit with Mr. Fields, and Mr. Watt and I talked about it and he tends to agree with me. Our constitutional problem is less a second amendment problem and more an equal protection problem. What we are worried about is legitimizing a precedent whereby people who live in public housing have less rights than other people in this society, even if it is a right we wish nobody had. And, of course, it is relatively easy when you agree substantively. The hard part of any civil libertarian argument is when you like the result, but you have to worry about the method.

It is like free speech. Free speech as a doctrine exists for jerks and obnoxious people. Nice people, nobody tries to shut them up. I rarely sympathize with a defendant in a free speech case. Most defendants in free speech cases you want to slap them and shut them up.

That is what we have here. How do we construct the rationale for reducing guns in public housing that doesn't legitimize the constitutional principle that says the Federal Government as the landlord can make you give up some rights that you have anywhere else in this society? And if the majority vote that way, that doesn't lessen it from the right standpoint. And I am terribly troubled by that.

And it is not, I think, wholly academic. There are other rights people might be asked to give up. The right to have visitors. There

might be the right to display signs. We might say we want the place to look good, you can't put a political sign in this window even though you could put it in that window. I don't think it is wholly abstruse. That is my concern. And the fact that people vote for it is of very little significance to me in the constitutional sense, in the equal protection sense.

It is certainly a better policy than if it was imposed by the authority. The equal protection argument disturbs me. But I know that Nelson obviously cares very deeply about these issues and he has devoted his life to them, but even as he has articulated this and this is the policy he has been given to justify, it seems to me an inevitable element is the Federal Government asserting its rights of ownership. In other words, if you left that out, you can say, well, there is this necessity, there are exigencies and circumstances, but that would apply anywhere in the city.

And if a city were to say, OK, take Cleo's Baton Rouge example, the following census tracts in Baton Rouge have had high violence rates and therefore guns are not allowed in those census tracts, but guns are allowed in those census tracts. And we have a racial correlation, I don't think we could buy that. How do you do it for all public housing?

And then you run into the problem of are we saying some nice older people, an older man who lives in a housing project in a semirural area, used to go hunting and he can't have his hunting rifle? And then we say he can have his hunting rifle but the young minority kids cannot have a pistol? I understand the goal and I admire your willingness to deal with it and your commitment to making the life of people who live in public housing better is extremely important. But until those concerns are satisfied, as much as I appreciate the goal, I have that problem.

Thank you, Mr. Chairman.

Chairman GONZALEZ. OK. I am going to recognize Mr. Barrett, who has returned and has some additional questions.

Mr. BARRETT. Just a followup question to Mr. Frank's line of questioning. I am intrigued by this proposal. I think that perhaps we can work out some of the bugs here.

And as I look at it, if you view the government doing this, it is one thing. But if you view it as a landlord doing it, you might have a different analysis. And I am curious if perhaps your attorneys have looked into it and it may be something to look into.

If you had an apartment complex which had in its leases a provision that you could not have any guns in the apartment complex, or if you had a condominium project where the members of the condominium voted that, or if you had a nursing home that said, there shouldn't be any guns in the nursing home, I don't know that those would be constitutionally invalid provisions in a lease. And I think if we look at it from the context of a landlord, what a landlord can say, perhaps you do run into the constitutional problems; but I think that might be a way to analyze it.

Secretary CISNEROS. That, I think, is a fruitful area for investigation. Let me say it is just a general observation, that there are many things now that landlords do in the name of security, from guards at doors to restricted access, to fences around buildings. I

am talking about attractive, upper income places that you would find in Boston or Milwaukee or anywhere else.

And so sometimes what we are trying to do is provide for poor people the same security that people get in higher income apartments that they, in effect, forgo certain kinds of rights on their own because they want to live in that building, and they view it as an element of living in that building, and they view it as one of the amenities of that building.

For example, people raise questions about putting a fence around public housing, but there are many, many upper income developments that have fences and limited access to them. So frequently what we are trying to do is replicate the same conditions for poor people that exist for higher income people, and because it is public housing—because it is public, I should say, questions come up in a different way than other people would voluntarily restrict themselves.

So these are difficult issues, and perhaps your suggestion that we look at this as a landlord issue is some guidance here.

Mr. FRANK. I can say, of course, one of the advantages that the private sector has is that there is a lot of money around and they are able to do that in a labor-intensive way and you are better able to differentiate. You can check, visitor by visitor. As you try to do that without money and you get to more blanket policies, they become harsher.

Not for the fence. Whoever raised that issue about the fence is stupid. That is ridiculous.

Secretary CISNEROS. Here is the problem, and I have encountered this. Are we saying that we would do these things if we had enough money, but the truth of the matter is that we don't have enough money? We don't. It is the reality; it is the world. And, therefore, we don't do them even partially because we don't have enough money.

Mr. FRANK. In some cases that might, sadly, be the case. Only with people, money being the thing—only with resources can you do them in a fair and reasonable way; and sometimes the choice is things that would be doable, if you had the resources to do them in a reasonable way, become arbitrary if you can't, particularly on visitors and guests.

A thing that said "No Visitors" would bother me. But when I go to my sister's apartment in Chevy Chase and I have to identify myself and they have one doorman for the inner door and one doorman for the outer door, and then they have a receptionist, I don't mind that because if she knows I am coming, she would let them know to let me in.

But if you had nobody there and the rule was no visitors after 8 o'clock at night, then that does become an unfairness.

Secretary CISNEROS. I hear you, I hear you.

Chairman GONZALEZ. Well, I was going to raise an issue here before—you have been very patient. I will do it quickly and while Mr. Frank is here, because he has been the leader in this preservation area.

We had testimony in a panel, I think the panel before last, about the coming crisis around the corner with section 8 project-based expiration of your 20-year holding for low-income rent and the like,

and Title VI; or LIHPRHA; and what I want to know, there is no question we are going to have a real crisis like we did in 1985-1986 when 221(d)(3) and 236 reached that point, and it took us, what, 3 or 4 years before we worked out a preservation formula.

Isn't that correct, Congressman Frank?

Mr. FRANK. Yes.

Chairman GONZALEZ. OK. This is going to be a very substantial number of units.

Now, I noticed, I believe, in your legislation you are suggesting limits or a cap on the Federal costs on preservation. And is that OMB-dictated or is that a HUD proposal?

Secretary CISNEROS. With your permission, I would like to ask someone to help me respond to that.

Chairman GONZALEZ. If she will introduce herself.

Secretary CISNEROS. Jeanne Engel is the Deputy Assistant Secretary for the FHA.

Ms. ENGEL. Good morning, Mr. Chairman. When we came to the Department, we noted that there was a major problem with Title II and Title VI. Both of these programs are extremely costly. They are also very burdensome to administer. And so one of the first priorities of the Commissioner was to look at the preservation issue, and we have started that process. We are looking at it both from a legal standpoint as well as an administrative standpoint.

The three amendments that we are proposing to the 1990 law are really just first steps. And you can look at them almost as throwing out some ideas. These are stopgap measures. These are three measures which will reduce the costs immediately to the Federal Government, and will cut down on some of the burdensome processing; but they are not sufficient to deal with the preservation problem as you have outlined it. What we are doing is something a little different.

We have and are working with a group of industry representatives, tenants, advocates, and others. It is a working group that is chaired by the National Housing Trust to really address this problem in a more comprehensive manner, this problem as well as the expiring section 8 certificates that you alluded to.

The proposals did come about as part of the negotiations with OMB, to answer your question. And, again, these are considered stopgap measures to basically reduce the cost to the Federal Government in the interim, and then we would come back to you with a larger package of legislative and administrative changes to LIHPRHA.

Chairman GONZALEZ. But at this time, I notice there is no money for preservation.

Ms. ENGEL. That is correct.

Chairman GONZALEZ. And that is wise? Should we not have something, and then not meet this sudden need that is just around the corner in a year or so?

Ms. ENGEL. We are bound by law to provide that assistance to owners.

You are correct that in 1995 we are not requesting additional dollars for Title II and Title VI incentives. We do believe that—based on the pipeline that we have today and that we are projecting for next year and the amount of dollars which we are carrying

over from this fiscal year, that we will have sufficient funds to provide all of the incentives that are needed.

Mr. FRANK. If the chairman would yield, I hope you are not counting in that any thought that we are going to give you the authority to go from 120 percent to 100 percent on the FMR. I don't think we are. Other people have asked that. We never do it.

I mean, in your calculations, I think you had better assume the current law. Maybe we will change it, but we haven't before, and I think that is unlikely.

Ms. ENGEL. I think when we came up with the number in our decision about the budget, we had a feeling you might say that.

Mr. FRANK. One other thing, Mr. Chairman. In the long-range solution—and I have talked to the chairman about this; I have been on the Budget Committee succeeding Mr. Schumer who had been on it, and this was a concern which the Banking Committee member who was on the Budget Committee has to deal with it—one of the problems that we have with section 8s, and it is one of the worst situations with accounting dictating policy, and the fact that you have got to take that section 8 and list it forever as budget authority.

I urge you to have OMB work with you for some improvement in that. It really is one of the few cases where accounting dictates policy, and it is unwise. And we have been hurt by that; we get unfairly tagged. We get much more of a budget authority whack than we ought to and this is the chance to clean that up.

Ms. ENGEL. And we will make sure that that is on the agenda, certainly.

Chairman GONZALEZ. Thank you very much, Mr. Secretary. You have been most patient and very, very helpful to this subcommittee.

Secretary CISNEROS. Thank you, sir.

Chairman GONZALEZ. And the subcommittee will stand adjourned until further call of the Chair.

[Whereupon, at 12:59 p.m., the hearing was adjourned, subject to the call of the Chair.]

APPENDIX

April 14, 1994

Opening Statement
Chairman Henry B. Gonzalez
Hearing on the Administration's Legislative Initiatives - 1994
April 14, 1994

Today we welcome the four program assistant secretaries of the Department of Housing and Urban Development, Joseph Schuldiner, Nicolas Retsinas, Andrew Cuomo, and Roberta Achtenberg, to present the details of the Administration's legislative proposals of 1994 for possible inclusion in the housing and community development reauthorization legislation for the fiscal years 1995 and 1996. I introduced H.R. 3838, the Housing and Community Development Act of 1994, with 20 members of the Committee as original co-sponsors on February 10. Although the HUD legislation has not yet been released, the Secretary presented some of the Department's initiatives in general in February and as I understand it the major initiatives are also included in the Administration's budget.

It is my intention to listen very closely to today's testimony and to review the legislative package closely once it is available so that on a bipartisan basis we can include a number of the proposals in the mark up vehicle in May. As I have said before, the reauthorization hearings will continue this month in anticipation of moving legislation to the House floor before the July 4 recess. In the weeks ahead your proposals will come under scrutiny from housing advocates and interest groups as will H.R. 3838.

Many of the initiatives and technical changes that were a part of the Administration's 1993 legislative package were just

signed into law by the President, the House and Senate passing this legislation just prior to the last district work period. The law incorporates most notably restructured and simplified reforms of the multifamily property disposition program; the new economic grant program as part of the section 108 loan guarantee program; technical and clarifying changes to the HOME provisions including establishment of a flat 25% match; and a number of other technical changes to existing law which will enhance program implementation.

I expect that the 1994 package will include provisions which will define the goals and strategies of this Administration with regard to homelessness, public housing reform, revitalization of the FHA single family programs, fair housing, and community revitalization. The Subcommittee would like to learn more about the details of these proposals to determine how the proposals fit within the extensive body of housing law; how these proposals will improve implementation of federal programs; and finally, whether these proposals will be enacted without adversely impacting the core programs which are critical to so many of our communities. As the Secretary heard when he appeared before the Subcommittee, we have some concern that the budget proposal in which many of your initiatives were outlined does appear to fund new programs, no matter how creative and worthy, by decreasing funding levels for programs such as public housing operating subsidies and modernization, the section 202 elderly housing program, or the HOME program.

As this hearing continues the regular legislative process

for the reauthorization bill, we are particularly interested in your comments about the proposals included in H.R. 3838, in your priorities remaining from the 1993 Administration legislation, and your 1994 proposals and legislation.

I look forward to the testimony.

STATEMENT BEFORE THE HOUSE COMMITTEE
ON BANKING, FINANCE AND URBAN AFFAIRS
SUBCOMMITTEE ON HOUSING AND
COMMUNITY DEVELOPMENT

WASHINGTON, DC
APRIL 14, 1994



BY
JOSEPH SHULDINER
ASSISTANT SECRETARY
FOR PUBLIC AND INDIAN HOUSING

Mr. Chairman, I want to thank you and the members of your Subcommittee for the invitation to testify before you this morning. I welcome the opportunity to discuss the Office of Public and Indian Housing's (PIH) legislative priorities for Fiscal Year (FY) 1994.

To begin with, I would like to commend the Committee for passing the Multifamily Housing Property Disposition Reform Act of 1994 -- which contained several key provisions affecting public housing -- and for drafting an authorization bill which includes many proposals with which we are in substantial agreement. We look forward to working with you, the Committee members and your staff on these and the other legislative proposals which I will outline today.

The Department of Housing and Urban Development's (HUD) legislative agenda for FY 1994 consists of numerous proposals affecting varying areas of public and Indian housing operations. However, each of these proposals represents a means to achieving one common goal -- improving the quality of life for residents of public and Indian housing. In the context of the Department's emerging new partnership with public and Indian housing authorities, local communities, residents, and other interested parties, PIH's legislative priorities will help to: 1) facilitate the rehabilitation and development of public and Indian housing units; 2) improve program operations and delivery of services to public and Indian housing residents; 3) provide greater mobility and broader housing choices to public and Indian housing residents; and 4) create opportunities for lower income families to take control of their lives.

Facilitating the rehabilitation and development of public housing

Current policies and procedures often result in construction and rehabilitation of public housing units which are unappealing and otherwise undesirable. In architecture, massing and scale, public housing should blend into surrounding neighborhoods, and housing density should be reduced. PIH has already begun to overhaul our development and modernization programs to assist local housing authorities in reaching these goals. We are simplifying program regulations, expediting the delivery of funds, revising design standards and cost containment policies, reducing density standards, allowing greater flexibility, and delegating more responsibility and discretion to the local level. These concepts are also the foundation of our modernization and development legislative proposals.

With respect to severely distressed public housing, we have proposed changes to the HOPE VI (section 24) revitalization grants program to incorporate advantageous provisions from the Urban Revitalization Demonstration (URD) program. The proposed revisions would amend replacement housing requirements to expedite the revitalization process and provide Public Housing Authorities (PHAs) with more flexibility in planning for the future of their housing stock. We are also proposing, in circumstances where a portion of a public housing development receives HOPE VI or URD funding and has an approved comprehensive plan, that any additional revitalization funding made available to that development can, at HUD's discretion, be subject to the HOPE VI or URD requirements regardless of the funding source. In addition, we are proposing to remove the HOPE VI and URD programs from the constraints of the Housing Act of 1937. These actions will provide the flexibility necessary for PHAs to move aggressively and comprehensively in implementing their revitalization plans, and will go a long way towards fundamentally changing the institutional and physical environment of severely distressed public housing.

The Department is also advocating a significant legislative change to PIH's traditional modernization program. We believe that housing authorities should be permitted to use modernization funds for the development of replacement housing required under the demolition and disposition statutes. This would provide housing authorities with the flexibility to determine whether replacement, rather than rehabilitation, would be a preferable option economically and socially under the public housing modernization program.

With respect to the Department's development program, we are proposing that the Secretary be permitted to recapture amounts reserved for development of specific public housing projects without waiting the entire 30-month period that is now required. This discretion could be exercised in situations where the Secretary makes a specific finding that there is no feasible way for the project to begin construction or rehabilitation, or to complete acquisition, within the 30-month period. The proposal would retain the exclusions from the time period for factors beyond the control of the public housing agency. Adoption of this proposal would help to expedite the development process at the local level, as well as the process by which HUD can make recaptured funds available to other assisted housing projects.

Improving program operations and delivery of services

Although the great majority of public housing authorities administer their programs efficiently and effectively, there are some housing authorities which have difficulties in managing their public housing stock. In an effort to better help these authorities deliver their services, HUD will reorganize its Field

Office operations effective April 15th. Field Office staffing is being restructured from generalists (housing management specialists, financial analysts, engineers) to functional area specialists reflecting the typical structure of public housing agencies: 1) organization, management and personnel; 2) community relations and involvement; 3) facilities management; 4) finance and budget; and 5) marketing and leasing management. These areas are designed to target, diagnose and resolve PHA performance problems by focusing on results; forming problem solving partnerships; and using risk based monitoring. The implementation of the new approach began in late 1993 using HUD-staffed change agent teams going on-site to provide training and technical assistance.

In coordination with these efforts, we are proposing legislation for FY 1994 which will help HUD and PHAs to identify and address the primary causes of management deficiencies. For instance, we are proposing that set-asides from modernization funding and development funding be used to contract expertise to assist in the oversight of PIH modernization and development programs, and to provide HUD with expert technical resources to assist in the management of housing authorities. Specifically, contracts could be awarded to: 1) hire inspectors to conduct inspections, appraisals, cost estimates, and monitor the quality of work; 2) provide expert technical assistance and diagnostic support to PHAs with regard to implementing administrative, technical or financial system improvements as well as resolving management deficiencies; 3) provide a resource for emergency response actions ranging from "SWAT teams" to PHA takeovers; and 4) administer resident satisfaction surveys to a national sample of public housing residents.

In an effort to further develop innovative management techniques, HUD is proposing that an "entrepreneurial PHA" demonstration program be authorized. Under this demonstration, the Secretary would be permitted to approve requests for waiver of statutory requirements to permit up to 25 selected housing authorities and/or Resident Management Corporations (RMCs) to set their own policies for the operation, maintenance, management, and development (including modernization) of any of their projects. HUD could also specify alternative requirements in connection with the demonstration. Entrepreneurial PHA demonstrations would therefore promote innovation in addressing public housing issues by: 1) allowing PHAs to identify statutory impediments to achieving their objectives; 2) encouraging local decision making; and 3) providing HUD with valuable first hand experience on what truly reinvented public housing programs may be.

Providing greater mobility and housing choices

PIH continues to view Section 8 assistance as the primary

means for relieving the concentration of poor and minority families in urban communities. We are therefore proposing some significant administrative revisions to assure the more efficient operation of this program.

The most comprehensive of these is a proposal to merge the Section 8 voucher and Section 8 certificate programs. By condensing these two similar programs into one program which retains the best features of each, PHAs would only have to comply with one set of program rules and reporting requirements, and work with only one rent calculation formula. It is anticipated that this simplification will significantly increase PHA staff efficiency while greatly reducing administrative errors and associated costs for both HUD and the PHA. The National Performance Review report estimates that the merger of these two programs will generate up to \$130 million in savings over the 1995 to 1999 period. While not reducing HUD's budget or spending levels, these savings will enable PHAs to help many more families locate the housing of their choice.

In a separate legislative proposal, we have requested that Congress change the way HUD determines fees which are paid to PHAs for the costs of administering the Section 8 program. The Department estimates this legislative proposal would reduce the costs of HUD reimbursements to PHAs for program administration by an additional \$87 million.

The Department is also proposing that Congress fund a "Choice in Residency" initiative as a means of facilitating enhanced metropolitan-wide housing searches. Choice in Residency would provide individual counseling to families applying for or already receiving tenant-based assistance under the Section 8 certificate and voucher programs. Activities under this program include, but are not limited to: 1) developing strategies for a successful housing search; 2) transportation assistance and other services to assure access to low-poverty tracts; 3) information and counseling as the families adjust to their new environment; and 4) aggressive outreach to property owners to expand the availability of housing outside of high poverty census tracts. This program would be funded at \$149.1 million for FY 1995 and 152.9 million for FY 1996, and HUD estimates that as many as 200,000 families could be assisted annually. It is reflective of HUD's commitment to providing a more geographically and economically diverse range of settings for assisted housing residents.

Helping lower income families to become self-sufficient

HUD remains committed to the belief that lower income families, as a means of empowering themselves, should be given the opportunity to experience the dignity of meaningful work, to be self sufficient, and to participate in a meaningful way in the

management of their housing. In this spirit, PIH's legislative agenda contains many proposals which encourage this movement towards independence.

Independence and self sufficiency can only be fostered in environments that are physically secure. However, the twin scourges of crime and drug abuse have engulfed public housing to a degree disproportionate to the rest of society. It is urgent that Congress honor our request to replace the existing Public Housing Drug Elimination Grant program with the Community Partnerships Against Crime (COMPAC) program -- a program considerably broader in its scope. COMPAC would cover all types of criminal activity, not just drug-related crime. It would allow for community policing, youth recreation and sports programs, anti-gang activities, resident participation and services, and improved security equipment and retrofitting of buildings among its eligible activities.

In conjunction with this proposal, the Department has asked Congress for more latitude in banning handguns at assisted housing projects and making criminal records available for screening and eviction procedures. These proposals, along with COMPAC, are instrumental in assuring the safety of public and Indian housing residents, and helping to provide an environment where they can become self sufficient.

The Department is proposing two significant changes in rent policy which we believe will create work incentives for residents of public housing. One proposal would revise the current method for setting ceiling rents; replacing a cost-based approach with a market-based approach. The new methodology would allow housing authorities to set ceiling rents for their projects at a reasonable rental value for units in the project, as approved by the Secretary. Ceiling rents encourage poor, working households to earn more money and to remain in public housing for a longer period of time. These families will set a positive example for children growing up in public housing developments and will provide stability and leadership to the community.

A second proposal would disallow increases in rent for 18 months for any family in public housing whose income increases as a result of employment of a member of the family who was previously unemployed for one or more years. This would provide strong work incentives for unemployed persons. Another advantage of this proposal is that it allows dependent children to become employed without the overall rent for the family increasing for an 18 month period.

In addition to providing work incentives, HUD wants to help create the conditions necessary for public housing residents to obtain employment. To this end, we are proposing that the Resident Management program be significantly expanded to include

social support needs of residents in public housing. Under a newly named Tenant Opportunity Program (TOP), HUD would be authorized to provide assistance to RMCs and Resident Councils in support of a wide variety of activities for economic uplift which are sponsored by resident organizations. Eligible activities include job training, economic development, security, and other self-sufficiency activities beyond those related to the management of public housing developments.

These self sufficiency initiatives, like the rest of PIH's legislative proposals for FY 1994, will help improve the quality of life for all residents of public and Indian housing.

Mr. Chairman, that completes my statement. I will be happy to answer any questions you and the members of the Subcommittee may have.

QUESTIONS FROM CHAIRMAN HENRY B. GONZALEZ TO
ASSISTANT SECRETARY SHULDINER

April 14, 1994, hearing held by the
Subcommittee on Housing and Community Development,
entitled "H.R. 3838, Housing and Community
Development Act of 1994"

Questions -- Public Housing

- 1) HUD's proposed Tenant Opportunity Program as outlined in the FY 1995 budget proposals would expand the current public housing Resident Management Program, and increase funding for the program from the current appropriated \$25 million to \$85 million, with this funding being provided out of public housing modernization funds. Please explain the need for the expansion of the current program, and why you are requesting that it be funded out of critically needed modernization funds, which the proposed FY 1995 HUD budget would substantially reduce?
- 2) HUD is proposing legislation to permit housing authorities to use public housing modernization funds for demolition and replacement purposes. What is the justification for this proposed change, and what oversight mechanisms would HUD institute to ensure that low income housing needs are not adversely affected, and that demolition and replacement of a particular project is more cost-effective than rehabilitation of the project?
- 3) The problem of crime in public housing has been a matter of longstanding concern to this Subcommittee. This issue has received much media attention recently, and various proposals have been raised by Members to address this issue. HUD is also proposing several initiatives to reduce crime and increase safety in public housing. Could you please explain these proposals? In developing these proposals, how did HUD review their potential impact on the constitutional rights of public housing applicants and residents?
- 4) A principal concern that has been raised with regard to HUD's proposed Community Partnerships Against Crime or COMPAC proposal is that the funding allocation formula for the program would result in the bulk of grant funds being distributed to large public housing authorities to the disadvantage of smaller housing authorities. Could you please respond to this concern?
- 5) Last year HUD proposed public housing rent reform proposals to assist working families who reside in public housing. H.R. 3838 contains these proposals. Does HUD intend to propose any additional rent reform proposals in its 1994 legislative package?

Questions -- Section 8 Housing Assistance Payments Program

6) It is my understanding that HUD's proposed rewriting and merger of the Section 8 certificate and voucher programs will not include the current certificate program provision limiting a low income family from paying more than 30 percent of their adjusted income for rent. What is HUD's rationale for this change? How will the HUD proposal protect low income families from facing excessive rent burdens in the Section 8 program?

7) HUD is proposing to reduce the administrative fees paid to public housing agencies for administering the section 8 program. How do you respond to the complaint by public housing agencies that such a reduction will have a significant detrimental impact on their administration of the Section 8 program?

8) HUD is proposing to add an employment preference as an example of an allowable local preference for admission to public and assisted housing. How will such a preference impact on the housing needs of the unemployed, particularly those low income persons who face such employment barriers as a lack of education or discrimination, or those low income persons for whom there is simply a lack of available jobs?

9) HUD is proposing a new "Choice in Residency" program to provide funding to PHAs and non-profit organizations to provide counseling and other assistance to families applying for or receiving section 8 tenant-based assistance with regard to their housing search. How does this program differ from the current Moving to Opportunities program, and the Metropolitan Areawide Demonstration program which HUD is also proposing, and which are also designed to improve the housing choice of Section 8 tenants?

Responses from Assistant Secretary Shuldiner to Chairman Gonzalez' Questions

Question:

HUD's proposed Tenant Opportunity Program as outlined in the FY 1995 budget proposals would expand the current public housing Resident mangement program, and increase the funding for the program from the current appropriated \$25 million to \$85 million, with the funding being provided out of the public housing modernization funds. Please explain the need for the expansion of the current program and why you are requesting that it be funded out of the critically needed modernization funds, which the proposed FY 1995 HUD budget would substantially reduce.

Answer:

1. There is a need to expand the proposed Tenant Opportunity program from the current \$25 million to \$85 million in order to provide the opportunity for a large number of current and newly formed Resident Councils to be fully trained to improve their communities and participate in economic uplift initiatives. To date there are only 383 resident entities with grants. We anticipate another approximately 200 resident entities to be engaged in training with the \$25 million in FY 1994 funding.

There will even be much higher demand in FY 1995 if the Department's changes in the authorization statute are enacted to:

1) permit housing authorities to be co-applicants with their resident councils; 2) permit the grant size to be increased from \$100,000 to \$250,000 so that all existing grantees will be eligible for additional funding to complete their training; 3) permit a broad range of self-help resident training - beyond housing authority operations.

2. With respect to the Tenant Opportunity funds coming from the Modernization Account, the funding for Section 20 Tenant Opportunity (formerly Resident Management) has always been

included as a discrete set-aside in this broader modernization account since the program's inception in FY 1988. The TOP funding should not be related to the issue of the modernization funding which we understand has been resolved.

Question: HUD is proposing legislation to permit housing authorities to use public housing modernization funds for demolition and replacement purposes. What is the justification for this proposed change, and what oversight mechanisms would HUD institute to ensure that low income housing needs are not adversely affected, and the demolition and replacement of a particular project is more cost effective than rehabilitation of the project?

2. Answer: The legislative proposal would permit HAS to demolish and replace dilapidated units where it would be more economical and socially preferable, such as to provide lower density, mixed-income communities. The proposal would provide HAS with the flexibility to determine whether replacement, rather than rehabilitation, or 15-year project-based or 5-year tenant-based section 8 assistance, would be a preferable option under the Modernization Program. Current law inhibits the ability of HAS to provide housing solutions which are tailored to local needs. At present, the Modernization Program only permits HAS to rehabilitate existing units.

The legislative proposal would place a cap on the amount of modernization funding (up to 50 percent of the annual grant) which an HA could use to provide replacement housing on a one-for-one basis, provided that the replacement housing is more cost effective than the cost of modernizing the existing housing, excluding the costs of demolition. The cap recognizes that not all developments are in need of demolition and that HAS have and will continue to have needs for rehabilitation funding. The legislative proposal does allow an HA greater flexibility in addressing the needs of its more pressing developments.

The Department would continue to enforce the current statutory requirements, as set forth in Section 18 of the U.S.

Housing Act of 1937, as amended. These requirements include that: an HA take no action to demolish or dispose of a development or portion of a development until an HA's demolition or disposition application has been approved by HUD; with respect to demolition, an HA demonstrate in its application to HUD that the proposed demolition of units is based on the units being both obsolete and infeasible with respect to rehabilitation; and an HA maintain the units for occupancy until HUD approves the demolition or disposition, unless the units are uninhabitable and it is necessary to relocate the residents to other units.

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Congressman Henry B. Gonzalez

Question: The problem of crime in public housing has been a matter of longstanding concern to this subcommittee. This issue has received much media attention recently, and various proposals have been raised by Members to address this issue. HUD is also proposing several initiatives to reduce crime and increase safety in public housing. Could you please explain these proposals? In developing these proposals, how did HUD review their potential impact on the constitutional rights of public housing applicants and residents?

3. Answer: The Department of Housing and Urban Development (HUD) has responded to the problems of drugs and crime with two general initiatives, each of which has several components. The first is Operation Safe Home, a three-pronged anti-crime effort in public housing. The first effort is targeted to anti-corruption efforts in public housing management, the second to anti-corruption efforts in equity programs. The third is an effort to coordinate and target federal law enforcement to federal crimes in public housing, especially against crimes of drugs and violence. As part of Operation Safe Home HUD has also initiated several legislative efforts, including allowing public housing authorities access to National Crime Information Center (NCIC) data when reviewing a prospective tenant's background for potential public housing tenancy. HUD views this as an additional tool for reviewing the background of prospective residents, and not as an infringement of a prospective resident's constitutional rights.

A second effort is to limit the ownership and possession of certain types of weapons by public housing residents. Two public housing authorities in Portland, ME and Richmond, VA have successfully defended a type of "gun ban" in public housing. In

the Richmond case it was pointed out that when police were able to trace the ownership of the weapons used in crime in or around public housing, none of the weapons were owned by public housing residents. Limiting the ownership or possession of guns by public housing residents will facilitate the enforcement of a gun-free residential environment without impacting the constitutional rights of public housing applicants and residents.

Finally, in response to increased gang activity at the Chicago Housing Authority (CHA), the Department reviewed the existing policies and regulations available to public housing authorities when considering inspections and searches of individuals and public housing units and common spaces. The guidance addresses searching residents as they enter a public housing building, inspecting units for firearms, consensual searches of units, searches of common areas and vacant apartments, weapons frisks of suspicious persons, warrant searches on probable cause, searches based on exigent circumstances, and arrest warrants. The guidance provided to CHA, and available to all public housing authorities, is based on currently allowable practices in public housing.

Congressman Henry B. Gonzalez

Question: A principal concern that has been raised with regard to HUD's proposed Community Partnerships Against Crime or COMPAC proposal is that the funding allocation formula for the program would result in the bulk of grant funds being distributed to large public housing authorities to the disadvantage of smaller housing authorities. Could you please respond to this concern?

4. Answer: Under the COMPAC program the Secretary will set forth criteria for establishing a class of housing authorities (Has) that have severe crime problems. To establish this class of applicants, the Secretary shall take into account the average crime, neighborhood and physical condition of the HA's developments using the most recent standardized data.

The potential formula indicators will target housing authorities where the characteristics of the city and the characteristics of the housing authority developments cause the greatest crime threat to the residents of the public housing units. City characteristics might include FBI per capita crime data on total murders (including non-negligent man-slaughter) and total robberies, averaged over the most recent two years. These crime statistics have considerable statistical accuracy, and they are related strongly to other city characteristics (such as female headed households and the poverty rate) that lead to problems of crime and also lead to problems of city fiscal capacity to police the public housing neighborhoods. Some characteristics specific to Has which predict severe crime problems are the concentration of large households with children or households with children in high-rise settings.

Preliminary analysis of indicators of severe crime problems show that some housing authorities below a certain size, such as

1250 units, have an above average incidence or magnitude of severe crime. Formula entitled cities will not be determined on an arbitrary size cut-off. Formula factors will be applied to every size of housing authority to ascertain formula entitled housing authorities and to determine the pools of funding for housing authorities with severe crime problems. A competitive category will be available for all other Has to apply for funding to address the multiple problems of crime. Housing authorities in the competitive category will be eligible for more funding than if they were formula driven. In some cases a formula entitled HA may decide to compete for funds rather than accept the formula amount because they will be eligible for more dollars.

JMG
27 June 1994

QUESTIONS FROM CHAIRMAN HENRY B. GONZALEZ

Question 5:

Last year HUD proposed public housing rent reform proposals to assist working families who reside in public housing. H.R. 3838 contains these proposals. Does HUD intend to propose any additional rent reform proposals in its 1994 legislative package?

Answer 5:

HUD's rent reform proposals are now contained in Section 206 and Section 207 of H.R. 4310 (the Department's 1994 legislative package). The proposals (which are the same as the ones introduced last year) include both a disallowance of earned income for residents who obtain employment and ceiling rents based on reasonable rental value. HUD has not proposed any additional rent reform provisions for 1994.

QUESTION 6: It is my understanding that HUD's proposed rewriting and merger of the Section 8 certificate and voucher programs will not include the current certificate program provision limiting a low income family from paying more than 30 percent of their adjusted income for rent. What is HUD's rationale for this change? How will the HUD proposal protect low income families from facing excessive rent burdens in the Section 8 program?

ANSWER 6: Under the current statute, families in the Section 8 certificate program can pay more than 30 percent of adjusted income for rent. Section 543 of the National Affordable Housing Act of 1990, which is being implemented by the Department through the rulemaking process, allows for up to 10 percent of certificate program families to pay more than 30 percent of adjusted income for rent. (The Department's proposed implementation of the section 543 provisions is included in the Section 8 conforming rule that was published in the Federal Register on February 24, 1993.)

The Department's legislative proposal for a merged Section 8 program would allow all families to pay more than 30 percent, but not more than 40 percent, of adjusted income for rent subject to a rent reasonableness determination by the local public housing agency administering the program.

The Department's proposal provides maximum flexibility by extending to all families the opportunity to select a more expensive unit if it is found to be rent reasonable. The proposal offers greater protection to families than the current certificate and voucher programs because it establishes a limitation on the percentage of income that may be paid for rent.

Further, because all, rather than a percentage of families, would have the option of paying between 30 and 40 percent of income for rent, the program will be easier for housing agencies to administer.

QUESTION 7: HUD is proposing to reduce the administrative fees paid to public housing agencies for administering the Section 8 program. How do you respond to the complaint by public housing agencies that such a reduction will have a significant detrimental impact on their administration of the Section 8 program?

ANSWER 7: The Department has proposed a Section 8 administrative fee rate of 7.65 percent for a public housing agency's (HA's) first 1,000 units and 7 percent for all units over 1,000. While these percentages are lower than the 8.2 percent most PHAs now receive for new allocations, 7.65 percent is in line with the average blended rate currently used by most PHAs. These percentages will be applied to a HUD-determined base that reflects the two-bedroom fair market rent (FMR) used for calculating the HA administrative fees during FY 1994 to develop a monthly amount which HUD will use to reimburse PHAs. The result will likely be that many PHAs administering fewer than 1,000 Section 8 units will see an increase in administrative fees over their current level. Subsequently, the monthly reimbursement amounts will be adjusted annually based on wage and salary data. If those factors increase by, say, five percent, fees would rise by that amount also. By using this method, administrative fees will not decrease, but should actually increase somewhat each year.

Questions from Chairman Henry B. Gonzalez

Question 8:

HUD is proposing to add an employment preference as an example of an allowable local preference for admission to public and assisted housing. How will such a preference impact on the housing needs of the unemployed, particularly those low income persons who face such employment barriers as a lack of education or discrimination, or those low income persons for whom there is simply a lack of available jobs?

Answer 8:

An employment preference would be one of many kinds of local preferences a housing agency could adopt. In public housing, it would help ensure some diversity among the project residents by including families that can serve as role models. In both public and assisted housing it would be a reward to those persons who, despite the obstacles, have the tenacity to get and keep a job.

A housing agency will still be required to give a priority to families with a Federal Preference in at least half of its admissions to public housing. The percentage of Federal Preference admissions rises to a minimum of 70 percent in project-based Section 8 and to 90 percent in the Section 8 certificate and voucher programs. This will ensure that many of the neediest families are assisted.

It is HUD's position that serving the neediest families and attracting working families are worthwhile and obtainable objectives for the public and assisted housing programs.

QUESTION 9: HUD is proposing a new "Choice in Residency" program to provide funding to PHAs and non-profit organizations to provide counseling and other assistance to families applying for or receiving section 8 tenant-based assistance with regard to their housing search. How does this program differ from the current Moving to Opportunities program, and the Metropolitan Areawide Demonstration program which HUD is also proposing, and which are also designed to improve the housing choice of Section 8 tenants?

ANSWER 9: The Choice in Residency program, the Moving to Opportunity (MTO) Demonstration and the Metropolitan Area-Wide Demonstration program share the common goal of providing wider housing opportunities to assisted families. The programs differ in the populations they serve, and the amount of choice allowed to families in the type and location of housing and the communities targeted.

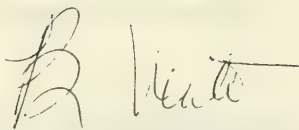
Tenant-based assistance will be available to eligible families in both the Choice in Residency and MTO programs, while the Metropolitan Area-Wide Strategy Demonstration would establish a consolidated waiting list for one-stop shopping for both tenant-based and project-based assistance (including both public housing and Section 8).

Eligibility for the MTO program is restricted to families living in public housing or who are receiving Section 8 project-based assistance in projects located in areas with high concentrations of poverty. The Choice in Residency Demonstration is available to applicants and participants in the Section 8 tenant-based certificate program. The Metropolitan Area Wide demonstration would serve applicants to both tenant-based and

project-based assisted housing programs in a metropolitan area.

The authorizing legislation for MTO limits participation to PHAs serving 28 central cities with a population of more than 350,000 people located in a metropolitan area with a population greater than 1.5 million. The Metropolitan Area-Wide Strategy Demonstration would be limited to three sites. The Choice in Residency Program has the potential to serve the greatest number of areas.

Each of the programs would provide for counseling, although in MTO special mobility counseling will be available to only half of the participating families. Those families may be assisted only if they agree to relocate in a low poverty area. The final choice of where to live in the Choice in Residency program will be made by the family.



ADDITIONAL QUESTIONS
OF CONGRESSMAN BRUCE F. VENTO
FROM THE HEARING OF THE HOUSING AND COMMUNITY DEVELOPMENT
SUBCOMMITTEE OF THE BANKING COMMITTEE
APRIL 14, 1994

FOR ASSISTANT SECRETARY SHULDINER

1. I am aware of the proposal to create a Native American Finance Authority and would like to work with the Department and others to help craft more avenues of opportunity for financing in Indian Country. Along those lines, what have been the Department's experiences with the Indian Housing Loan Guarantee program?
2. With regard to the COMPAC proposal, what statistics is the department using to justify its allocation/reservation of funds to the largest public housing authorities? Are those statistics specific to the areas in and around public housing?

Responses from Assistant Secretary Shuldiner to Congressman Vento's Questions

ADDITIONAL QUESTIONS
OF CONGRESSMAN BRUCE F. VENTO

QUESTION:

1. I am aware of the proposal to create a Native American Finance Authority and would like to work with the Department and others to help craft more avenues of opportunity for financing in Indian Country. Along those lines, what have been the Department's experiences with the Indian Housing Loan Guarantee program?

ANSWER:

As you know, the Indian Loan Guarantee Program was authorized in the Housing and Community Development Act of 1992, however, no funds were appropriated to capitalize the Loan Guarantee Fund until FY 1994. The Department is in the process of publishing an interim rule to implement the Indian Housing Loan Guarantee program. It is anticipated that the rule will go to OMB for clearance the last week of June. We are still hopeful that commitments to guarantee homes loans on Indian lands can be issued before the end of this fiscal year. There is a great deal of interest in this program from the Native American community as well as the lending community. We expect to have the program fully operational in FY 1995 and to commit the full amount of credit allowed.

Congressman Bruce F. Vento

Question: With regard to the COMPAC proposal, what statistics is the department using to justify its allocation/reservation of funds to the largest public housing authorities? Are those statistics specific to the areas in and around public housing?

Answer: Under the COMPAC program the Secretary will set forth criteria for establishing a class of housing authorities (Has) that have severe crime problems. To establish this class of applicants, the Secretary shall take into account the average crime, neighborhood and physical condition of the HA's developments using the most recent standardized data.

The potential formula indicators will target housing authorities where the characteristics of the city and the characteristics of the housing authority developments cause the greatest crime threat to the residents of the public housing units. City characteristics might include FBI per capita crime data on total murders (including non-negligent man-slaughter) and total robberies, averaged over the most recent two years. These crime statistics have considerable statistical accuracy, and they are related strongly to other city characteristics (such as female headed households and the poverty rate) that lead to problems of crime and also lead to problems of city fiscal capacity to police the public housing neighborhoods. Some characteristics specific to Has which predict severe crime problems are the concentration of large households with children or households with children in high-rise settings.

Preliminary analysis of indicators of severe crime problems show that some housing authorities below a certain size, such as 1250 units, have an above average incidence or magnitude of

severe crime. Formula entitled cities will not be determined on an arbitrary size cut-off. Formula factors will be applied to every size of housing authority to ascertain formula entitled housing authorities and to determine the pools of funding for housing authorities with severe crime problems. A competitive category will be available for all other Has to apply for funding to address the multiple problems of crime. Housing authorities in the competitive category will be eligible for more funding than if they were formula driven. In some cases a formula entitled HA may decide to compete for funds rather than accept the formula amount because they will be eligible for more dollars.

QUESTIONS FROM REP. CHARLES E. SCHUMER

TO MR. SHULDINER

(4/14/94)

In 1992, I included a provision in the National Affordable Housing Act creating the Family Unification Program (FUP). The FUP would provide emergency housing assistance to families at-risk of losing their children to foster care solely for the reason that they do not have adequate housing. I am disappointed that the Administration has requested terminating the program. According to the Children's Defense Fund, this program has been very successful in a short time. In addition, our housing policy, I presume, is not simply just to provide shelter but to keep families together. The Family Unification Program keeps families together.

Why has the Administration decided to terminate this program?

In your view, has this program been ineffective? Is Children's Defense Fund wrong?

How do you suggest that HUD provide housing for families at-risk of losing their children to foster care due to inadequate housing?

Responses from Assistant Secretary Shuldiner to Congressman Schumer's Questions

(Question from Congressman Charles E. Schumer)

FAMILY UNIFICATION PROGRAM

Question: In 1992, I included a provision in the National Affordable Housing Act creating the Family Unification Program (FUP). The FUP would provide emergency housing assistance to families at-risk of losing their children to foster care solely for the reason that they do not have adequate housing. I am disappointed that the Administration has requested terminating the program. According to the Children's Defense Fund, this program has been very successful in a short time. In addition, our housing policy, I presume, is not simply just to provide shelter but to keep families together. The Family Unification Program keeps families together.

Why has the Administration decided to terminate this program?

In your view, has this program been ineffective? Is Children's Defense Fund wrong?

How do you suggest that HUD provide housing for families at-risk of losing their children to foster care due to inadequate housing?

Answer: As you know, the Family Unification Program has been funded by Congress for the past two years and will assist nearly 3,000 families. The Department has an additional \$77.4 million in FY 1994 funding for the Family Unification and expects to publish a Notice of Funding Availability in the summer of 1994. The Department has decided not to request new funding for the Family Unification Program since the funds for Fiscal Years 1992, 1993 and 1994 provide a sufficient group of participants to determine whether the program will be able to achieve its purpose.

Public housing agencies (PHAs) have the authority under current Federal law to undertake a family unification program without the necessity for new funding from HUD. This allows any and all PHAs to participate in the reunification of families through the use of local preferences in their administrative plans. The program can be expanded well beyond the FUP, since the program is limited to PHAs in 16 specific states identified by Congress and HUD. The Family Unification Program funding limits the scope of the program, whereas PHAs can establish their own programs with larger set-asides. PHAs have the discretion, under their own family unification set-asides, to establish relationships with numerous organizations, including non-profits in addition to the public child welfare agency, and are subject only to the normal Section 8 program rules and fair housing laws.

Questions
from
The Honorable Lucille Roybal-Allard

Committee on Banking, Finance and Urban Affairs
Subcommittee on Housing and Community Development
Housing Reauthorization

April 14, 1994

**1. One Bedroom Units vs Three Bedroom Units in Public Housing
Family Friendly Public Housing**

To Secretary Joseph Shuldiner:

Assistant Secretary for Public and Indian Housing

**** Mr. Shuldiner, there seems to be a terrible shortage of two and three bedroom units in our public housing inventory that can be used to accommodate families with children. Given the substantial cuts in funding for public housing in HUD's budget for FY95, how are we going to meet this desperate need for family housing?

Given the cuts in funding, how are we going to make our public housing more family friendly?

Responses from Assistant Secretary Shuldiner to Congresswoman Roybal-Allard's Questions

Question from Lucille Roybal-Allard:

Mr. Shuldiner, there seems to be a terrible shortage of two and three bedroom units in our public housing inventory that can be used to accommodate families with children. Given the substantial cuts in funding for public housing in HUD's budget for FY 95, how are we going to meet this desperate need for family housing?

Given the cuts in funding how are we going to make our public housing more family friendly?

Answer:

For the past several years, HUD has given priority to the development of large family public housing units (3+ bedrooms), as a result, a large proportion of the more than 20,000 units with funds reserved but not started at the beginning of this fiscal year were for large families. HUD has been aggressively encouraging PHAs to start these projects.

In addition, many of the family public housing units that have been vacant are undergoing modernization. Upon completion of modernization, these units will also help meet the need for large family units.

Families with children are also served by the tenant-based rental certificate and rental voucher programs. Since those programs do not involve physical dwelling units, Public Housing Agencies can easily adjust the unit-size distribution to meet current demand.

**QUESTIONS FROM CONGRESSMAN MEL WATT TO
ASSISTANT SECRETARY JOSEPH SHULDINER**

**April 14, 1994, hearing held by the
Subcommittee on Housing and Community Development,
entitled "H.R. 3838, Housing and Community
Development Act of 1994"
(HUD's 1994 legislative initiatives)**

Questions regarding the Family Unification Program:

- 1) Why is funding for the Family Unification Program not included in HUD's 1994 legislative proposals?
- 2) What is the justification for ending the program just as it is beginning to work? It is my understanding that funding for the second year has been released only recently. Has the program been implemented long enough to evaluate or determine its effectiveness before deciding to eliminate it?

Questions regarding housing authorities:

In my district in North Carolina, Charlotte, Greensboro, and Durham are considered well-managed, "high performers" under HUD's Public Housing Management Assessment Program (PHMAP). Currently, there seems to be little reward for the "high performers".

- 1) What benefit, if any, are the "high performers" entitled to? If they aren't entitled to any, what is the significance or purpose of this designation?
- 2) Have the working groups of public housing officials that you established, completed their evaluations and submitted recommendations to you? If so, were their recommendations taken into consideration in developing the 1994 initiatives? Will the members of the Housing Subcommittee have an opportunity to review these recommendations? Are there any suggestions for providing any regulatory relief to "high performers"?

Assistant Secretary Shuldiner's Responses to Congressman Watt's Questions

Family Unification Program

Question 1: Why is funding for the Family Unification Program not included in HUD's 1994 legislative proposals?

Answer: As you know, the Family Unification Demonstration Program has been funded by Congress for the past two years and will assist nearly 3,000 families. The Department has an additional \$77.4 million in FY 1994 funding for the Family Unification Demonstration and expects to publish a Notice of Funding Availability in the summer of 1994. The Department has decided not to request new funding for the Family Unification Demonstration Program since the funds for Fiscal Years 1992, 1993 and 1994 provide a sufficient group of participants to determine whether the program will be able to achieve its purpose.

Question 2: What is the justification for ending the program just as it is beginning to work? It is my understanding that funding for the second year has been released only recently. Has the program been implemented long enough to evaluate or determine its effectiveness before deciding to eliminate it?

Answer: Public housing agencies (PHAs) have the authority under current Federal law to undertake a family unification program without the necessity for new funding from HUD. This allows any and all PHAs to participate in the reunification of families through the use of local preferences in their administrative plans. The program can be expanded well beyond the demonstration, since the demonstration is limited to PHAs in 16 specific states identified by Congress and HUD. The Family Unification Demonstration funding limits the scope of the program, whereas PHAs can establish their own programs with larger set-asides. PHAs have the discretion, under their own family unification set-asides, to establish relationships with numerous organizations, including non-profits in addition to the public child welfare agency, and are subject only to the normal Section 8 program rules and fair housing laws.

High Performing Public Housing Agencies (PHAs)

Question 1: What benefit, if any, are the "high performers" entitled to? If they aren't entitled to any, what is the significance or purpose of this designation?

Answer: Under the Public Housing Management Assessment Program (PHMAP), high-performing PHAs are currently afforded the following regulatory incentives:

General incentives:

- High-performing PHAs will receive a Certificate of Commendation from the Department as well as special public recognition.
- Requisitions for leased housing annual contributions (Form HUD-52977, Request for Partial Payment of Fixed Annual Contribution, Leased Projects) will be submitted annually rather than quarterly (as presently provided by the Low-Income Leased Housing Handbook 7430.1, as revised) by high-performing PHAs.
- High-performing PHAs will be deemed to be a lower risk and, therefore, will be monitored less frequently on a risk analysis basis.
- Representatives of high-performing PHAs will be requested to serve on Departmental Working Groups that will advise the Department in such areas as troubled PHAs, performance standards for all PHAs, incentives for high-performing PHAs, etc.
- The Department will utilize a PHA's PHMAP assessment score as the management capabilities component in grant programs, such as modernization, drug elimination, child-care, etc. Where appropriate, extra points for high-performing PHAs may be awarded in the scoring of grant programs.

Financial management incentives:

- High-performing PHAs will submit Form HUD-52599, Statement of Operating Receipts and Expenditures, annually instead of semiannually.
- High-performing PHAs will not be required to submit operating budget revisions for routine expenses (including administration) and nonroutine expenditures for HUD approval as long as there is no overrun of the Total Operating Expenditures shown in the HUD-approved budget.

- High-performing PHAs will submit Form HUD-52295, Report of Tenants Accounts Receivable, annually instead of semiannually.

Occupancy incentives:

- High-performing PHAs will not be required to receive prior HUD approval for occupancy of dwelling units by PHA employees, provided the PHA charges market rents for such units.
- An internal occupancy audit may be conducted by a high-performing PHA in place of an audit by the Field Office, at the option of the PHA, when the previous audit was conducted by the Field Office.

Modernization incentives:

- High-performing PHAs are relieved of the need for prior HUD review of architects'/engineers' contracts.
- High-performing PHAs are relieved of the need for HUD review for construction and bid documents.
- High-performing PHAs are relieved of the need for HUD review of contract modifications (change orders).
- High-performing PHAs are relieved of the need for HUD review of Request for Proposals (RFPs) and contract modifications for management improvement contracts.
- High-performing PHAs are relieved of the need for HUD review of budget revisions that delete or substantially revise approved work items, add new work items or incur costs in excess of the approved budget amount for any work item.

Development incentives:

- High-performing PHAs may submit applications in response to a Notice of Fund Availability (NOFA) with no further evidence of their capability to develop additional public housing units.
- High-performing PHAs may approve construction modifications (change orders) that do not increase the contract amount and which are consistent with the original approved plans.
- High-performing PHAs will not be required to obtain prior HUD approval under the Development Handbook 7417.1, as revised, for contracts for professional and technical services.

- High-performing PHAs are relieved of the need for prior HUD approval of contracts for legal, architectural, engineering, or inspection services in connection with development, including the PHA's methodology for selection.

Question 2: (a) Have the working groups of public housing officials that you established, completed their evaluations and submitted recommendations to you?

Answer: Yes, and the Office of Public and Indian Housing has just completed an Action Plan for Implementation.

(b) If so, were their recommendations taken into consideration in developing the 1994 initiatives?

Answer: Yes, where applicable. Not all of the working groups submitted recommendations that required statutory changes; most, in fact, would require modifications to regulations and administrative guidance. However, those that were submitted within the timeframe allotted for development of the 1994 legislative program were considered. Among those that were addressed in the 1994 legislative program were ceiling rent reform, and revisions to COMPAC and Family Investment Centers. It should also be noted that these working groups were not charged with reviewing changes to the public housing development and modernization, Indian housing, and Section 8 programs, since separate working groups established earlier were already well underway in developing recommendations for improvements in these programs. A group looking at incentives for high performing PHAs had also been established (see below). The recommendations of those groups were also factored into development of the 1994 legislative program.

(c) Will the members of the Housing Subcommittee have an opportunity to review these recommendations?

Answer: Yes, a copy of the groups' summary recommendations and the PIH Action Plan will be transmitted to the Subcommittee.

(d) Are there any suggestions for providing any regulatory relief to "high performers"?

Answer: In addition to the incentives currently afforded high-performing PHAs, the Department is planning to provide additional regulatory relief, paperwork reduction, and retention by high-performing PHAs of savings from efficient management. The Department will implement many of the recommendations submitted by the High Performers Working Group. Elaine Ostrowski, the Executive Director of the Greensboro Housing Authority, served on this working group.

Response from Assistant Secretary Shuldiner in response to
Colloquy with Congressman Knollenberg

Question:

Mr. Knollenberg. I will try to be brief and, admittedly, you don't have the benefit of having heard this the first time all the way through, but while reading through the summary, I mentioned that there was an item designated PIH-62 called the Public Housing Resident Employment Demonstration that would give certain PHAs some flexibility, some creativity in encouraging new methods of work for residents.

The provision is strikingly similar to a market rent demonstration program which I proposed in rent reform bill H.R. 2957. My point is, two months ago, I requested an executive comment from the Secretary on this particular provision. As of yet we haven't gotten that. And I noticed on page 3 of your written testimony that you have some reference, paragraph 3, to words or wording that is in fact a mirror image of what I had in 2957.

What is the history behind your proposal and is it different from mine and what kind of study or review got you to that point of coming up with the program that you presented?

Mr. Shuldiner. Let me just say that the particular item you are talking about is beyond the general rent reform. It goes specifically to a demonstration that would be a demonstration for purposes of allowing our policy development and research office to exam how it worked out.

From our perspective, that was their recommendation to us. So in reality, I cannot say where they came up with it. I mean, this was something that was suggested to us by our policy development and research office to be able to really see what the impact of this more flexible rent rules would have. I would be happy to get that answer for you, though.

Mr. Knollenberg. Would you?

Mr. Shuldiner. Yes, sir.

Mr. Knollenberg. I would like to have that.

Answer:

As the arm of the Department responsible for policy analysis, the Office of Policy Development and Research (PD&R) works closely with the Office of Public and Indian housing to explore ways to improve public housing and to give residents incentives to work

and lift themselves economically. In addition, PD&R has been the Department's principal representative in the formation of the Administration's welfare reform proposal. As a result of the welfare reform discussions, HUD experienced increased concern about the disincentives to work present in our rent policies, and about how the Department could contribute to the Administration's recognition that in order for welfare reform to work, we must make work pay.

HUD developed PIH-62, the Public Housing Resident Employment Demonstration, because we believe strongly that in addition to the ceiling rent and income disregard proposals being offered as part of the Department's bill, it would be to the Department's benefit to have the authority to demonstrate and evaluate the impacts of these changes in rent policy in a controlled experiment and to determine the savings that would result from their use. PD&R and PIH staff discussed PIH-62 to assure that it would complement HUD's efforts at rent reform. PIH-62 does not suggest any particular ceiling rent system or income disregard formula, but proposes to allow participating PHAs flexibility in proposing systems to test. It does, however, limit the demonstration to 2,000 families in up to 10 PHAs for a period not to exceed five years. PIH-62 also offers PHAs an incentive to participate in the demonstration, and to be both creative and bold in their efforts to encourage resident employment - the Department will absorb any costs that might result from the experiment, thus reducing the risk to participating PHAs.

PIH-62 has not been submitted to the Congress formally. It was not included in H.R. 4310, the Housing Choice and Community Investment Act of 1994. However, the Department strongly supports the proposal because we believe that it is important to continue studying and testing ceiling rents and income disregards to determine which particular designs are most likely to produce the desired results, both because they are attractive enough to administering PHAs and to residents to maximize the number of residents who choose to seek and maintain employment, and because they will produce savings to the Department. PIH-62 offers the flexibility necessary to test a variety of approaches to determine what will work.

Before I respond to your question by describing the differences between PIH-62 and Section 3 of H.R. 2957, I would like to point out that your proposal is actually a great deal like HUD's proposal for an entrepreneurial PHA demonstration, which is Section 205 of H.R. 4310. Section 205 would permit 25 PHAs or Resident Management Corporations to request waivers to statutory requirements to permit them to operate free of the restraints they see in the laws on public housing operation, maintenance, and development. It is to this proposal that I made reference in my testimony.

There are some differences between HUD's proposed Section 205 and your proposed Section 3, and I will describe them later.

However, they are alike in putting the risk-taking burden on the participating PHAs and RMCs. If the actions that the PHAs and RMCs undertake as a result of the waiver of statute end up costing money, there will be no adjustment in subsidy; the PHA must absorb the costs. This feature is one of the reasons that HUD supports the implementation of two demonstrations - the broader entrepreneurial PHA effort, which will show us how much risk a PHA is willing to take to be given relief from Federal regulation, and the resident employment demonstration, in which we assure risk-taking by absorbing the possible costs, but on a small scale. The other reason is that the scope of potential waivers in the entrepreneurial PHA demonstration is so broad that there may not be enough PHAs experimenting with ceiling rents and income disregards to produce sufficient data for analysis. PIH-62 would assure a large enough sample of PHAs.

To reiterate, the Department believes that its two proposals taken together provide an excellent opportunity to see what changes in overall management and operation a PHA would make when it did so at its own risk, with no opportunity for additional Federal assistance if the changes don't work and end up costing more; and, more narrowly, to view a number of rent reform options, some of which might involve risk-taking, but with the Federal government willing to take that risk in a controlled setting. These two experiments together will provide us with the information necessary to change policy nationally with the assurance that such changes will result in better housing at the

same or lower cost. Because your proposed Section 3 is so similar to our entrepreneurial PHA demonstration, we believe that PIH-62 could be made to work equally well with your proposal.

As noted earlier, while Section 3 is very similar to HUD's entrepreneurial PHA proposal, it does have some differences from it: Section 3 proposes a larger demonstration and provides for some exceptions from the Housing Act of 1937 to be mandatory. Once again, it requires that at least 30 percent of the total dwelling units in participating projects be reserved for leasing to very low-income families, and it authorizes the use of Section 8 for families in the demonstration projects who would be required to pay more for rent under the demonstration than if they weren't living in a demonstration project. Such families may be given preference for Section 8. No fewer families may be served by the program than would be served absent the demonstration. HUD's entrepreneurial PHA proposal, on the other hand, has some restrictions on which parts of the law may be waived, and requires an independent evaluation.

Because our two proposals are so similar, the Department looks forward to working with you on developing a demonstration that responds to our mutual desire to improve conditions in public housing and to provide opportunities for families who live there. I hope that as we continue our deliberations on this subject, we also will incorporate the features of PIH-62. That would provide us with truly comprehensive authority to demonstrate new

management techniques and with the ability to provide PHAs with an incentive to be bold in their experiments.

April 14, 1994

Rep. Michael N. Castle

HOUSE BANKING SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT

HUD'S FY 1995 LEGISLATIVE PROGRAM

Questions for

Joseph Shuldiner, Assistant Secretary for Public Housing:

MIXED POPULATIONS IN PUBLIC AND ASSISTED HOUSING DESIGNATED FOR THE ELDERLY:

* Public Housing officials in Delaware have consistently expressed concern over growing problems related to the housing of young people with drug problems or mental disabilities in buildings containing mostly elderly residents. I understand the need for non-discriminatory housing policies, but if these young people are causing disturbances and threatening elderly residents, the local housing authority should have the flexibility to separate the disruptive residents from the elderly.

- Can you explain the new regulations on this issue that HUD published this week? Will local officials have any flexibility to address problems with mixed populations? Can they remove disruptive residents and how cumbersome will this process be?

HIGH PERFORMING PUBLIC HOUSING AUTHORITIES

* The Delaware State Housing Authority is a well-run organization. For the last two years, DSHA has received a 100% rating in performance standards. Unfortunately, there does not appear to be any incentive from HUD for PHAs to perform well. HUD focuses on distressed public housing. What can be done to reward those housing authorities that are doing a good job? Does HUD have any plans to modify its policies in this area?

Responses from Assistant Secretary Shuldiner to Congressman Castle's Questions

Questions from Representative Michael N. Castle on April 14, 1994

MIXED POPULATIONS IN PUBLIC AND ASSISTED HOUSING DESIGNATED FOR
THE ELDERLY

Question:

Can you explain the new regulations on this issue that HUD published this week? Will local officials have any flexibility to address problems with mixed populations? Can they remove disruptive residents and how cumbersome will this process be?

Answer:

HUD's regulation, 24 CFR Part 945, "Designated Housing, Public Housing Designated for Occupancy by Disabled, Elderly, or Disabled and Elderly Families," was published April 13, 1994.

Part 945 permits public housing agencies (PHAs) to designate projects, buildings or units for occupancy only by elderly persons and elderly families. Under more limited circumstances, PHAs will be permitted to designate projects, buildings or units for persons with disabilities. PHAs also may maintain projects occupied by elderly families and persons with disabilities as mixed population projects without applying for a designation.

Before a PHA can designate a project, building or unit, it must complete an allocation plan and submit it to HUD for approval. The allocation plan for designated housing for elderly

families must show that the PHA has made provisions for the housing needs of non-elderly, disabled families, since they will no longer be permitted to move into the designated housing.

The PHA must submit a new allocation plan every two years with data that shows the effect of the designation. It also must demonstrate the PHA's success in providing alternative housing assistance to the non-elderly, disabled families who can no longer move into the building because of the designation.

Currently, PHAs have the flexibility to screen all applicants and their families to determine if they will be suitable as tenants. PHAs also may evict tenants who do not comply with the lease.

PHAs are encouraged to work out a cooperative relationship with local social service providers. HUD and HHS designed a Blueprint to be used as a model collaborative agreement between public housing agencies and mental health authorities. It provides an outline of the respective roles and responsibilities of each agency in the process of coordinating housing and support services for persons with serious mental illnesses. The agreement will be equally useful whether the persons with mental illness are living in family projects, mixed population projects, or specifically designated projects.

Currently, a PHA may evict tenants who do not comply with the lease. This applies to all of their public housing projects, the ones that are designated and the ones that are not. However, the PHA must use the lease termination procedures required by HUD regulations (25 CFR Part 966, Subparts A and B, Lease and Grievance Procedures) and by State and local law.

Tenants of the designated building who are not members of the designated group and who comply with their leases may not be forced to move from the buildings. (Thus, it is possible that a building designated for elderly families may contain non-elderly disabled families for many years after designation, although new non-elderly disabled families will not be moving in.)

QUESTIONS FROM REP. MICHAEL N. CASTLE

High Performing Public Housing Agencies (PHAs)

Question: The Delaware State Housing Authority is a well-run organization. For the last two years, DSHA has received a 100% rating in performance standards. Unfortunately, there does not appear to be any incentive from HUD for PHAs to perform well. HUD focuses on distressed public housing. What can be done to reward those housing authorities that are doing a good job? Does HUD have any plans to modify its policies in this area?

Answer: Under the Public Housing Management Assessment Program (PHMAP), high-performing PHAs are currently afforded incentives in the following areas:

1. General incentives;
2. Financial management;
3. Occupancy;
4. Modernization; and
5. Development.

In addition to the incentives currently afforded high-performing PHAs, the Department will provide for the deregulation of public housing agencies with high scores under the PHMAP, which include additional regulatory relief, less HUD oversight and review, paperwork reduction, and retention by high-performing PHAs of savings from other activities besides rent and investment income for housing.

STATEMENT BEFORE THE HOUSE COMMITTEE
ON BANKING, FINANCE AND URBAN AFFAIRS
SUBCOMMITTEE ON HOUSING AND
COMMUNITY DEVELOPMENT

WASHINGTON, DC
APRIL 14, 1994



BY
ANDREW CUOMO
ASSISTANT SECRETARY
FOR COMMUNITY PLANNING AND DEVELOPMENT

Statement of Andrew Cuomo

Assistant Secretary for Community Planning and Development
Before the Subcommittee on Housing and Community Development
of the House Committee on Banking, Finance and Urban Affairs
Thursday, April 14, 1994

Mr. Chairman and Member of the Committee:

I am pleased to appear before you once again. Before discussing what we are proposing at HUD, I wish to commend you, Chairman Gonzalez, for all you have done over the years in serving as a conscience for those most in need on housing and community development issues. I also wish to express my gratitude to the ranking minority member and other members of the committee for their contributions and particularly for your fast action on the recent passage of the Multifamily Housing Property Disposition Reform Act of 1994. Of particular importance in this legislation is the Economic Development Initiative which should strengthen local capacity for economic development in large and small communities throughout the country.

It has been both a personal and professional pleasure to work under the inspired leadership of Secretary Cisneros at HUD who has a deep commitment to putting people first in the policies of the Department. I also want to acknowledge the work of Terry Duvernay, the Deputy Secretary, and my fellow assistant secretaries. It is a pleasure to work with them as a team to develop a unified approach to addressing housing and community development problems. I would like to particularly acknowledge

my colleagues, Roberta Achtenberg, Nicolas Retsinas, and Joe Schuldiner who will be testifying with me today.

I would like to take this opportunity to discuss a key component of the reinvention of HUD, our current plans for the Community Planning and Development portions of the 1994 Reauthorization of HUD's legislative program. I recognize that you have been concerned that adequate emphasis be given to community development as well as housing and that it be more directed to improving needy neighborhoods. Therefore, we are proposing a number of approaches which we think will accomplish that mission. There are strong components of this proposal which coordinate housing and community development at the level of neighborhoods and stem from community-based planning which empower neighborhood community groups in community development partnerships.

The legislative proposals which we intend to submit to you shortly carry out a number of underlying themes or principles at HUD and CPD. The first of these principles is "bottom up" planning. This is a recognition that the best community development is created neighborhood by neighborhood, with comprehensive solutions shaped from the bottom up, with and for each community. Accordingly, we are proposing a community viability fund which would, among other things, provide community institution capacity building, and foster community-based strategic planning and neighborhood development. A key element of this proposal is capacity-building of neighborhoods and

neighborhood groups that have not heretofore been part of the development process.

Second, we must develop a comprehensive approach to addressing community and neighborhood problems. Narrow functional programs cannot solve complex problems of the individual family or neighborhood. Part of this comprehensive approach is reflected in the new consolidated planning and application process we are implementing for our formula grant programs. This new approach both streamlines paperwork and enables communities to spend more time on comprehensive strategic planning and less time on petty burdensome reporting and application requirements.

To apply this comprehensive approach to addressing the problem of homelessness, we will be proposing a reorganization of the McKinney Act programs through creation of homeless assistance grants, to be distributed by formula to States and localities. This will help communities build continuum of care systems to address all of the needs of the homeless individuals and families. Funding will be contingent upon submitting an acceptable local comprehensive plan to address their needs of the homeless. Twenty-five percent of the funds would be distributed to the States for further allocation to communities. Unlike the current approach, the proposed system will enable communities to undertake and implement a comprehensive system to address the varied social service and housing needs of persons who are homeless.

We will also ask you to apply this concept of comprehensive strategic planning to one or our nation's neediest geographical areas, the colonias.

Third, we must empower people to help themselves by creating jobs and providing them with the skills to take advantage of these jobs. Economic development, tied in closely with human development, plays a pivotal role in comprehensive planning for urban and community development and helps create communities that work. For this reason, we will be requesting you to authorize grants for a new Leveraged Investment for Tomorrow program, a project-based neighborhood economic development program. It is designed to stimulate investment in economic and physical revitalization projects to improve the quality of life in distressed neighborhoods. It will enable the Department to play a pro-active role in creating local economic development partnerships with localities, CDCs and other members of the community. We will also be requesting authorization for a grant for Empowerment Zones and Enterprise Communities to undertake comprehensive economic and physical development activities. These initiatives, along with our efforts to make better use of the CDBG program for economic development and the existing empowerment zone program, should help economic development to serve as an effective engine for community revitalization.

Fourth, community-based planning must involve decentralization of decision-making. We cannot be so prescriptive in our planning guidelines that communities lack the

flexibility to solve the diverse problems they face at home. The principle will be reflected in the implementation of both old and new legislation and in giving more authority to field staff.

In sum, our proposals will strengthen our Nation's commitment to its communities by involving public, for-profit and not-for-profit entities in innovative strategies to build local capacity, improve urban design, stimulate a metropolitan-wide approach to solving community development problems, create needed jobs, and help meet national community development goals.

Mr. Chairman, I would be happy to answer any questions about the proposals which committee members might have.

QUESTIONS FROM CHAIRMAN HENRY B. GONZALEZ TO
ASSISTANT SECRETARY CUOMO

April 14, 1994, hearing held by the
Subcommittee on Housing and Community Development,
entitled "H.R. 3838, Housing and Community
Development Act of 1994"

Can you provide more detail on Operation Lift? Why cannot this be achieved under the CDBG program or the section 108 program?

Can you also reconcile this effort (LIFT) to establish a new categorical grant program with your efforts to return decision making to the local level through consolidation of the homeless programs into a formula driven system?

Have you considered how the homeless consolidation formula will be determined? Will it be similar to the CDBG formula? On that note, what is the status of the Department's evaluation and rewrite of the CDBG formula? Is the Department recommending changes to the existing formula? If so, what are those changes and what are the reasons for those changes?

As part of HUD's "Continuum of Care" plan, HUD expects local governments to meet with private non-profits service providers to determine what may best serve the homeless community, regardless of whether the providers receive HUD or local funds. While many local service providers receive HHS funding, those dollars will not be part of the proposed block grant. Therefore, the nonprofit service providers cannot be required to participate in the planning of a full "continuum of care".

How can HUD require a plan for the full "Continuum of Care" when the Department is funding only the housing aspect, and HHS is not participating in the plan or the block granting of its programs.

Do we need to make the full spectrum of McKinney programs part of the block grant in order to achieve this continuum of care goal? What programs will be included in the "continuum of care" plan?

What is the status of the D.C. Homeless Initiative? How much of the \$20 million appropriated last year has been obligated? What activities are available?

What is the purpose of the Department's proposal to create a Community Viability Fund in which capacity building, one of the eligible activities, may be conducted under many other current programs, such as the HOME program, the National Community Development Initiative (NCDI), enacted last year as part of the Demonstration Act, the preservation program, and the resident management corporation program in public housing? The planning activities may be included in the normal CHAS process and the CDBG process and certainly in the consolidated plan that you are proposing. Can you comment any further?

Why is FEMA Emergency Food and Shelter program being transferred to HUD when it is such a successful program? What are the Department's present and future plans for the program?

Responses from Assistant Secretary Cuomo to
Questions from Chairman Gonzalez

LIFT

1a. Question: Can you provide more detail on Operation LIFT?

Answer: The LIFT proposal targets funds for economic development to physically and economically distressed neighborhoods. These are neighborhoods that demonstrate concentrations of low and moderate income persons, high poverty rates, high unemployment rates and other indicators of economic need. The primary objective of LIFT is to provide a catalyst for the physical and economic rebuilding of these neighborhoods.

For almost two decades, physically and economically distressed neighborhoods have continued a severe decline with ever increasing rates of poverty, unemployment and crime. Against this backdrop that appears almost nightly on the evening news, there have been some noteworthy successes in Newark, New Jersey, Chicago, Illinois and other communities where community-based organizations have forged public/private partnerships and undertaken a holistic view of the economic and physical revitalization of their neighborhoods. The neighborhood LIFT program would build upon these successes by providing economic development financing for neighborhood based retail, commercial and service facilities, community centers and community-based business expansions that are a catalytic component of a overall neighborhood's physical and economic revitalization strategy. LIFT is not seen as a financing vehicle for large, stand-alone office towers or hotels, but rather as linchpin component of an overall strategy to rebuild the neighborhood's economic base.

The LIFT proposal has two principal elements. The first element is a project-based, targeted component and would help localities and community-based organizations (CBOs) develop and implement neighborhood revitalization projects. HUD would act as a facilitator to establish public/private partnerships that include CBOs, units of general local government, and for-profit entities within a jurisdiction. The Secretary would select projects based upon the extent to which the assisted activities would provide essential goods and services to residents of the neighborhood; generate jobs for residents of the neighborhood, especially those who are chronically unemployed or receive welfare; are an essential element of, and catalyst for the physical and economic revitalization of the neighborhoods; build the economic base of the neighborhood and leverage public and private investment in the physical and economic revitalization of the neighborhood. Up to 75 percent of the funds available under LIFT would devoted to this component.

The second LIFT component is competitive and is project-based. It would select among applications that, to the greatest extent: generated jobs for neighborhood residents; built upon the economic base in the neighborhood, especially through such measures as neighborhood business expansion and meaningful reinvestment of profits to the neighborhood; were sponsored by for-profit and non-profit development partnerships; and expanded the capacity of local institutions, including community-based organizations, to carry out neighborhood revitalization.

- 1b. Question: Why cannot this be achieved under the CDBG program or the section 108 program?

Answer: Economic development under the CDBG program is primarily focused on capitalizing small business revolving funds. CDBG is rarely able to respond to the needs of larger businesses that could yield greater positive impact on the community. However, CDBG is seen as a complementary resource for a community's neighborhood revitalization strategy providing funds for housing rehabilitation, public services and helping to stabilize small, existing businesses already in the neighborhood. At the other end of the economic development spectrum are large scale projects assisted through such programs as the Section 108 loan guarantee program. The Section 108 loan guarantee program requires economic development projects that have a highly predictable cash flow stream in order to repay the loan. As a result of this need for predictable cash flow to pay the Section 108 debt service, Section 108 loans generally are not carried out in the riskier, more economically distressed neighborhoods. By contrast, a LIFT grant would allow a city, or community-based organization, to undertake an economic development project in an economically riskier neighborhood where the long-term success of the project is tied to the successful implementation of a long-term strategy to physically revitalize the neighborhood. Such projects require long-term, patient financing that is not available under the Section 108 loan program.

2. Question: Can you also reconcile this effort (LIFT) to establish a new categorical grant program with your efforts to return decision making to the local level through consolidation of the

homeless programs into a formula driven system?

Answer: The LIFT program is designed to help local communities respond to economic development opportunities that may not be addressed through existing programs due to the scale and timing of these projects. CDBG funds are in high demand and often committed to specific projects. Also CDBG funds are insufficient to capitalize the needs of such economic revitalization projects.

Homeless Questions from Chairman Gonzalez

- 3a.& b. 1. QUESTION: Have you considered how the homeless consolidation formula will be determined? Will it be similar to the CDBG formula?

ANSWER: Funds are allocated among States, metropolitan cities urban counties, Indian Tribes and Insular areas using the allocation mechanism contained in the Emergency Shelter Grants program, which in turn is adapted from the CDBG formula. However, 75 percent of the funds (after meeting the needs of the Indians and Insular areas) would be allocated to eligible metropolitan cities and urban counties and 25 percent to States.

CDBG

- 3c.d.&e. Question: On that note, what is the status of the Department's evaluation and rewrite of the CDBG formula? Is the Department recommending changes to the existing formula? If so, what are those changes and what are the reasons for those changes?

Answer: The Department is carefully reviewing the results of the study and the report is expected to be delivered to the House and Senate committees shortly.

4. QUESTION: As part of HUD's "Continuum of Care" plan, HUD expects local governments to meet with private non-profit service providers to determine what may best serve the homeless community, regardless of whether the providers receive HUD or local funds. While many local service providers receive HHS funding, those dollars will not be part of the proposed block grant. Therefore the nonprofit service providers cannot be required to participate in the planning of a full "Continuum of Care." How can HUD require a plan for the full "Continuum of Care" when the Department is funding only the housing aspect, and HHS is not participating in the plan or the block granting of its programs?

ANSWER: The Administration's request for funding both HUD's and HHS' targeted homeless assistance is \$2 billion. The portion of these funds that would be administered by HUD would be nearly 90 percent. As such the vast majority of the \$2 billion in targeted homeless assistance would be used at the local level to implement Continuum of Care. Given the significant level of HUD funding that would be allocated to localities, the Department fully anticipates that much, and in many communities all, of the targeted HHS funds would also be used in the locality's Continuum of Care approach.

5. QUESTION: Do we need to make the full spectrum of McKinney programs part of the block grant in order to achieve this continuum of care goal? What programs will be included in the continuum of care plan?

ANSWER: The Administration acknowledges in the Federal Plan, "Priority: Home!" that the McKinney programs currently contribute to the lack of planning and coordination of homeless assistance at the local level by offering twenty categorical programs administered by six agencies and accessed by different parties. The first step toward streamlining the McKinney grant programs is the proposed consolidation of HUD's programs. Once enacted, the localities will work to identify all available resources to fill the gaps in their local continuum of care strategy, including non-HUD McKinney programs.

As for the future, the Administration will be exploring further consolidation and reorganization across Federal departments, including consolidation with mainstream programs, where appropriate. However, any reorganization of current programs would still represent an emergency measure, intended to deal with the current crisis of homelessness. Eventually, emphasis will be on mainstream programs that deal with long-term community development. Localities would be expected to anticipate in the development of their continuum of care strategies the gradual phasing-out of all McKinney programs and their replacement by mainstream social service, human, and community development programs that deal with the underlying issues of economic opportunity and affordable housing.

6. **QUESTION:** What is the status of the DC Homeless Initiative? How much of the \$20 million appropriated last year has been obligated? What activities are available?

ANSWER: On May 18, 1994, the Secretary announced the signing of a Memorandum of Understanding (MOU) between the District of Columbia, HUD and the Community Partnership for the DC Initiative. The MOU paves the way to continue implementation of the partnership initiated by HUD to address the problem of homeless men, women and children in the District.

HUD released \$317,700 of the DC Initiative funds to local non-profits through the Community Partnership to continue HUD's efforts to develop a continuum of care system. This release followed an earlier one made in December in the amount of \$294,000 that was divided among six local non-profits. The funds will be used to provide operating and supportive services as well as rehabilitation activities related to serving the needs of homeless persons.

Community Viability Fund

- 7a. **Question:** What is the purpose of the Department's proposal to create a Community Viability Fund in which capacity building, one of the eligible activities, may be conducted under many other current programs, such as the HOME program, the National Community Development Initiative (NCDI), enacted last year as part of the HUD Demonstration Act, the preservation program, and the resident management corporation program in public housing?

Answer: The purpose of the Community Viability Fund is to enhance partnerships among the federal government and community-based organizations. It would provide significant new resources to assist community based organizations in revitalizing neighborhoods through a wide range of activities. The fund would also support the development of public amenities and comprehensive planning of create viable communities. There are a whole series of activities that would be funded under the Community Viability Fund that cannot be funded through our technical assistance programs. Generally technical assistance is used to provide education and to disseminate specific information on particular programs and regulatory requirements. It cannot be used to help entities address specific local problems, pay for operating expenses, or actually engage in construction, community organizing, or similar activities.

- 7b. The planning activities may be included in the normal CHAS process and the CDBG process and certainly in the consolidated plan that you are proposing.

Question: Can you comment further?

Answer: Although planning activities may be included in the normal CHAS and CDBG process, our experience indicates they rarely satisfy the criteria for genuine strategic planning. Most of these plans are related to community development generally, specific to CDBG funds only, or (like the CHAS) are limited to the use of program resources for housing purposes. In fact, it is precisely this plethora of planning that makes the strategic planning component necessary. This component will enable communities and regions to plan in a comprehensive fashion, not simply to address particular problems but to address them all together. It will provide an incentive for areas to coordinate their planning in a more comprehensive fashion. In addition, there are a series of regional problems such as fair housing and employment opportunities for low income people that frequently are not addressed when planning is undertaken.

The Community Viability Fund would help promote the development and implementation of comprehensive approaches that integrate poorer, inner-city neighborhoods into the greater metropolitan region. The strategic planning grants envisioned in the Community Viability Fund would provide communities an incentive to undertake a comprehensive vision of community development that goes beyond the minimum required in the consolidated plan.

8. QUESTION: Why is FEMA Emergency Food and Shelter Program being transferred to HUD when it is such a successful program? What are the Department's present and future plans for the program?

ANSWER: The proposed transfer of the successful Emergency Food and Shelter Program (EFS) was included in the Administration's FY 1995 budget request. Neither the House nor the Senate has acted on that recommendation. Given the apparent congressional interest to retain that program at FEMA, the Department is hopeful that localities will include the EFS program and its funding as a part of their continuum of care strategy.

Questions
from
The Honorable Lucille Roybal-Allard

Committee on Banking, Finance and Urban Affairs
Subcommittee on Housing and Community Development
Housing Reauthorization

April 14, 1994

1. Concerns about HUD's Plan to Consolidate Homeless Programs

To Secretary Andrew Cuomo:

Assistant Secretary for Community Development and Planning

**** Mr. Cuomo, several organizations that do a wonderful job at assisting the homeless in Los Angeles have raised concerns about HUD's plan to consolidate the department's homeless programs. They are concerned that they will no longer be able to go directly to the federal government for assistance. These organization are concerned that if homeless assistance money goes to the state in the form of "block grants," they will have a difficult or impossible time in accessing federal money intended for homeless assistance.

Would you elaborate on the consolidation plan and explain how the new processes and reallocations envisioned under consolidation will make federal homeless assistance more effective?

Responses from Assistant Secretary Cuomo to
Questions from Hon. Lucille Roybal-Allard

1. QUESTION: Mr. Cuomo, several organizations that do a wonderful job at assisting the homeless in Los Angeles have raised concerns about HUD's plan to consolidate the department's homeless programs. They are concerned that they will no longer be able to go directly to the federal government for assistance. These organizations are concerned that if homeless assistance money goes to the state in the form of "block grants," they will have a difficult or impossible time in accessing federal money intended for homeless assistance. Would you elaborate on the consolidated plan and explain how the new process and reallocations envisioned under consolidation will make federal assistance more effective?

ANSWER: The Administration's proposal to consolidate HUD's McKinney programs is designed to target a significant portion of funds to communities with relatively greater homeless need. Using the CDBG formula as a proxy for this need, 37 metropolitan cities and urban counties in California would receive direct allocations from HUD for homeless assistance. In addition to providing assistance to metropolitan cities and urban counties, the Administration proposes to provide 25% of the formula funds to States in order to provide assistance in non-metropolitan areas. In California, this proposal would result in increasing assistance in FY 1995 from the \$13 million the State has, on average, been receiving during the past 7 seven years to over \$29 million. This increased funding level would represent a more than doubling of funds for California's non-metro areas.

In addition to providing more funding, the Administration's proposal also represents a completely new approach to allocating funds. As I indicated above, metropolitan areas would receive an allocation from HUD and would develop their own continuum of care strategy to address their local needs. As for non-metropolitan areas, HUD would allocate funds to each State, recognizing that California is more able than Federal officials in Washington, DC to assess the needs of and allocate funds to California's non-metropolitan areas. As the funds allocated to each State could ONLY be used in non-metropolitan areas, no longer would these less populous areas, with their unique needs, be competing against large urban areas for funding.

BERNARD SANDERS
MEMBER OF CONGRESS
VERMONT, AT LARGE

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(4/14/94)

Question to Assistant Secretary Andrew Cuomo
from Rep. Bernard Sanders

Mr. Cuomo,

As part of the Housing and Community Development Act of 1992, this Committee expanded eligibility for technical assistance monies under Section 233 of the HOME program to Community Land Trusts.

However, Community Land Trusts have yet to be able to compete for these funds. I wrote to you on this issue and you responded in a March 15 letter that the Notice of Funding Availability was being held up by some "office-wide review of technical assistance programs". I appreciate your desire to make sure HUD program are working efficiently but I also know that these technical assistance monies are critical to housing groups across the country.

Could you please tell me when this review will be completed, and when the NOFA, which I understand was prepared some 3 months ago, will be issued?

Response from Assistant Secretary Cuomo to
Question from Rep. Bernard Sanders

As part of the Housing and Community Development Act of 1992, this Committee expanded eligibility for technical assistance monies under Section 233 of the HOME program to Community Land Trusts.

However, Community Land Trusts have yet to be able to compete for these funds. I wrote to you on this issue and you responded in a March 15 letter that the Notice of Funding Availability was being held up by some "office-wide review of technical assistance programs". I appreciate your desire to make sure HUD programs are working efficiently but I also know that these technical assistance monies are critical to housing groups across the country.

Question: Could you please tell me when this review will be completed, and when the NOFA, which I understand was prepared some 3 months ago, will be issued?

Answer: Because of the concern expressed by organizations interested in the CHDO TA NOFA), I held a meeting in Washington on May 10, 1994 to discuss the situation. All 28 organizations currently providing TA to CHDOs under cooperative agreements with HUD were invited to attend. During the meeting I indicated that the NOFA prepared by HUD staff in January had not been issued because of internal flaws in the rating factors that made it unworkable. The new NOFA that would correct these flaws and cover a wider range of programs and activities than previously was planned. The NOFA was published June 30, 1994.

STATEMENT BEFORE THE HOUSE COMMITTEE
ON BANKING, FINANCE AND URBAN AFFAIRS
SUBCOMMITTEE ON HOUSING AND
COMMUNITY DEVELOPMENT

WASHINGTON, DC
APRIL 14, 1994



BY
NICOLAS P. RETSINAS
ASSISTANT SECRETARY
FOR HOUSING-FEDERAL HOUSING COMMISSIONER

4-13-94

STATEMENT OF

NICOLAS P. RETSINAS

ASSISTANT SECRETARY FOR HOUSING-FEDERAL HOUSING COMMISSIONER
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

ON HIGHLIGHTS OF LEGISLATIVE PROPOSALS AND OTHER INITIATIVES
TO PROMOTE HOUSING AND HOMEOWNERSHIP OPPORTUNITIES

Before the
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

April 1994

INTRODUCTION

Mr. Chairman, the goals of HUD's housing production and rental assistance programs are to increase opportunities for homeownership among low and moderate income families; to expand the availability of affordable rental housing through production programs for new units; and to preserve good quality multifamily housing as an affordable housing resource.

HUD has once again become a positive force for expanding and preserving the supply of affordable housing. The Department, and particularly its Federal Housing Administration, will focus on forging new partnerships to unlock private capital sources for affordable housing production and preservation.

Mr. Chairman, I would now like to review briefly some of the highlights of Housing's legislative proposals and other initiatives. I will begin with an update on the condition of the Mutual Mortgage Insurance Fund and then proceed to describe this year's Housing proposals in the context of the Clinton Administration's strategy for expanding opportunities for homeownership and affordable rental housing.

Because the work of your Committee has been so far-reaching, the multifamily proposals we have this year are essentially additional tools to support our asset management and operations management initiatives. For this reason and because of our commitment to assist first time homebuyers and other underserved mortgagors, I will focus primarily on the single family housing proposals but will also briefly describe Housing's multifamily proposals, particularly their relationship to the Department's asset management efforts.

Improvements in MMI Fund

Mr. Chairman, I came before this Subcommittee last summer to report on the status and condition of FHA's Mutual Mortgage Insurance Fund, the MMI Fund. I stated at that time that the MMI Fund remained solvent and its financial condition was improving.

I am happy to report that this is still the case. In fact, I can now go beyond last year's statement and advise you that the health of the Fund improved significantly during the past eight months or so since I last came before this Subcommittee. A draft actuarial analysis for the fiscal year ended September 30, 1993 shows that FHA has exceeded the 1992, legislatively-mandated 1.25 percent capital reserve ratio and it is projected to meet the 2 percent reserve requirement well before the year 2000. That analysis will be final and available to the Committee at the beginning of May.

Despite this notable success, there is some evidence that the financial reforms, especially premium pricing, have contributed to a decline in FHA market share, from 20% of home transactions in 1990 to 13% in 1993. This may have impacted adversely FHA's ability to meet its mandate of providing affordable housing to low and moderate income Americans.

It is clearly time to restore FHA's role in the market. To continue to improve the fund financially and to allow FHA to reach out to underserved buyers from a position of strength, making use of the cross-subsidization feature of the fund.

I stated last summer that an improvement in the condition of the MMI fund, if sustainable, presents a real opportunity to find creative ways to expand homeownership opportunities for those in need of our assistance. HUD already is taking a number of administrative actions to accomplish this. For example, our single family property disposition discounted sales program is now operational in 50 field offices. This program uses the single family inventory more creatively by establishing special sales programs for non-profit and public entities that will purchase and rehabilitate the properties for resale to low and moderate income buyers. To date, we have 532 sales contracts pending closure under this program. We also have revamped key urban programs such as Section 203(k), and we are currently assessing our underwriting standards so they will be more responsive to non-traditional buyers. The real payoff, however, will come through legislative action, and we must work together to make it happen.

SINGLE FAMILY PROPOSALS AND INITIATIVES

A. Context

Housing's single family legislative proposals this year primarily focus on FHA and getting FHA back into business. This focus fits hand in hand with the President's homeownership strategy and plans for economic recovery, and the health of the MMI Fund. The health of the MMI fund is one of the reasons we feel confident about moving forward with these new legislative initiatives at this time.

Through its programs and their interaction with all parts of the mortgage market, HUD can help chart the course for increased homeownership opportunities for low- and moderate-income families. FHA insurance remains the principal method for those families to obtain mortgage financing, particularly those that are first-time homebuyers or otherwise excluded from the private mortgage market.

The legislative initiatives that support HUD's homeownership strategy will help reinvigorate FHA and again make it a positive force for homeownership for those entering the mortgage market. HUD realizes that expanding homeownership opportunity depends in large measure on the ability of Federal programs to leverage private sources of financial support. Therefore, the legislative package stresses partnering with financial institutions, the secondary mortgage market, States and local government, and community-based nonprofit organizations to expand homeownership opportunities.

B. Legislative Proposals

The Department is proposing a series of initiatives to reinvigorate the FHA single-family mortgage insurance program to increase its availability to low- and moderate-income, first-time homebuyers. These proposals reflect new approaches to expanding homeownership opportunity.

Single Family Insurance in Revitalization Areas. HUD proposes to establish a new program to make FHA home mortgage insurance available on special terms to buyers who have no more than 115 percent of area median income in neighborhoods undergoing revitalization efforts. This proposal helps make FHA more of a partner in local and community efforts to revitalize neighborhoods. Under the program, buyers would be able to receive 100 percent financing on the home. In addition, all buyers would receive pre-purchase counseling. Although closing costs could not be financed through the insured mortgages, these costs as well as other cash requirements could be provided through State or local government programs, nonprofit contributions, or even seller or third party gifts.

FHA Maximum Mortgage Amount. HUD proposes to increase FHA single family mortgage limits to expand homeownership opportunities for moderate-income

families. The FHA program currently has a floor mortgage limit of \$67,500 and a high-cost limit that may not exceed the lesser of 95 percent of the median house price for an area or 75 percent of the FNMA/FHLMC conforming loan limit (\$151,750). As part of our legislative proposals, we would increase the high-cost limit to 85 percent of the conforming loan limit. The important effect of the change will be to expand housing opportunities for average American families, for example teachers, police and fire fighters and factory workers, in areas that have relatively high housing costs. This will make FHA a tool for homeownership once again in very high-cost States like in California and Connecticut where median house prices exceed the current FHA limit.

Innovative Affordable Housing Demonstrations. By stressing entrepreneurship and being able to respond to changing conditions in the marketplace, HUD can remain a dynamic force for providing new homeownership opportunities for low- and moderate-income homebuyers. HUD therefore proposes to establish innovative demonstrations that use alternative mortgage instruments insured under the National Housing Act and partnerships with the Federal Home Loan Mortgage Corporation (FHLMC), the Federal National Mortgage Association (FNMA), Federal Home Loan Banks and their members, and State and local housing finance agencies.

Current law contains authority for specific alternative financing programs, for example, adjustable rate mortgages. However, FHA does not have general authority to develop or insure new mortgage instruments. As a result, each potential innovation must await new legislation. Such programs, as well as broad authority to enter into partnerships with other housing entities, will eliminate an impediment to public and private efforts to provide affordable homeownership opportunities.

The overall demonstration program will be limited to 10 percent of insurance written during the previous year. Each individual demonstration would have a cap of 5 percent of the previous year's volume.

Single Family Risk-Sharing. The legislative package authorizes risk-sharing of insured mortgages between HUD and selected State agencies to allow those agencies to better serve high cost markets. In States such as California, where many metropolitan areas have relatively high home prices, the FHA single family insurance program may not be used effectively because of relatively low statutory mortgage limits. Under this initiative, FHA credit enhancement would be made available through risk-sharing arrangements with State agencies in connection with loans that qualify under a State agency program but which exceed FHA mortgage limits. It therefore will complement State efforts to provide affordable housing without creating undue risk to the FHA fund.

Homeownership and Outreach Counseling. HUD is quadrupling, to \$50 million, funds available for housing counseling. HUD proposes to: (1) conduct outreach and marketing to prospective homebuyers, targeted to neighborhoods with a high proportion of low- and moderate-income and minority renter households; (2) coordinate a proactive pre-purchase homeownership strategy that includes linkages with other HUD-approved counseling providers and community-based organizations; (3) serve as an advocate for homebuyers by working with the mortgage lending industry with regard to overcoming mortgage credit barriers to homeownership; and (4) continue to make default counseling an important part of our efforts to keep families in their homes and sustain homeownership.

National Homeownership Fund Demonstration. The Department is requesting \$100 million for a demonstration program to increase homeownership opportunities targeted to families with incomes of 80 percent of median or below. The program will not require repayment of the subsidy upon sale of the property or increases in the mortgagor's income. This program will be implemented through amendments to the National Homeownership Trust Demonstration enacted in 1990. These amendments will emphasize effective use of downpayment assistance, second mortgage assistance, and use of funds to capitalize revolving loan funds and seek to involve states and non-profit organizations in the program on a competitive basis. We are currently seeking ways to tie the demonstration to our FHA insurance proposals.

Other Proposals. The bill we will be submitting also contains important technical and other improvements to current programs to make them work better. Such improvements include:

- **Home Equity Conversion Mortgage Program.** HUD proposes to extend and expand the program by making two to four family properties eligible within the existing \$25,000 unit volume cap. The maximum mortgage amount would be the same as for a one-unit dwelling.
- **Simplified Downpayment Requirements.** HUD proposes to simplify the downpayment requirements for our basic home mortgage insurance program.
- **Mortgage Limits under the Section 221(d) and 237 Programs.** HUD proposes to increase the mortgage limits under the Section 221(d)(2) and Section 237 programs to 50 percent of mortgage limit for FHA's basic insurance program.
- **Delegated Endorsement.** HUD proposes authorization of certain approved lenders in the direct endorsement program to insure or endorse loans. Allowing selected lenders to actually insure the loans will reduce delays between loan closing and loan insurance.

These proposals, coupled with several enforcement initiatives, will make FHA a much more effective partner in providing homeownership opportunities.

Multifamily Proposals and Initiatives

Moving on to the multifamily side of FHA, I first want to thank this Subcommittee for the assistance you have provided already. You were a key force behind the property disposition reform bill. That law, taken as a whole, constitutes an effective and balanced approach to preserving affordable housing within the constraints of budget discipline. The law will help us to move properties out of our inventory more expeditiously and cost-effectively while responding to the current realities of the federal budget.

In addition to providing much needed reforms to the property disposition process, the law now provides certain default prevention tools that the Department greatly needs. This law is crucial to our success in managing the multifamily property portfolio and I want to assure you that we will move fast to implement its provisions and get right to the business of improving our asset management.

Because most of the legislative changes proposed by the Department were considered during the development of S. 1299, the balance of our 1994 proposals, at least as it involves multifamily, is devoted to program improvements and technical proposals which support our asset management strategy. For example, we are proposing broader use of civil money penalties against non-performing owners of assisted projects and the authority to require lenders to accept partial payments of claims. Finally, a number of technical proposals clarify or streamline program terms or eliminate little used multifamily authorities.

CONCLUSION

This concludes my overview of proposals for housing affordability and homeownership. I thank you, Mr. Chairman, and the distinguished members of the Committee for providing this opportunity to review highlights of Housing's legislative proposals and other initiatives.

Adequate housing, whether through homeownership or affordable rental housing, is an important social objective that must not be limited to certain segments of our society. The demand for homeownership and affordable rental housing opportunities is stronger than ever, especially among households excluded from conventional programs. In order to meet this demand, HUD must work in partnership with the public, private, and non-profit sectors. By helping more households obtain decent shelter, we can work together to build stronger families, stronger communities, and a stronger nation.

QUESTIONS FROM CHAIRMAN HENRY B. GONZALEZ TO
ASSISTANT SECRETARY RETSINAS

April 14, 1994, hearing held by the
Subcommittee on Housing and Community Development,
entitled "H.R. 3838, Housing and Community
Development Act of 1994"

As you know, the National Homeownership Trust was established to facilitate homeownership for those able to meet monthly payments but unable to meet downpayment cost or high interest rates. The proposed revisions to the Trust target the assistance to low-income buyers and strike the interest rate buydown provision. If interest rates continue to rise once again, do you foresee the need to assist the moderate-income homebuyers and maintain the ability to buydown interest rates?

Do you have statistical data to support the assertion that defaults on the high end mortgages are less likely to pose a risk to the fund than defaults at the low end?

As related to your testimony on page five concerning the home equity conversion mortgages, am I correct that this proposal is designed to recognize the reality of the marketplace in many New England cities for homes now occupied by elderly families?

Could you explain the simplified downpayment requirements that HUD will propose? Will this have any effect on the actuarial soundness of the Single Family mortgage insurance fund? What will be the impact of this proposal on the loan to value ratio on individual mortgages?

(Responses from Assistant Secretary Retsinas)

QUESTIONS FROM CHAIRMAN HENRY B. GONZALEZ TO
ASSISTANT SECRETARY RETSINAS
APRIL 14, 1994, HEARING

1. With regard to the National Homeownership Trust, if interest rates rise again, do you foresee the need to assist moderate income homebuyers and maintain the ability to buy down interest rates?

Answer:

Our legislative proposal made a number of changes to the National Homeownership Trust Demonstration designed to streamline the program. One of the changes was to more strictly target the program to homebuyers with income less than 80% of the median for the area. Existing authority allows assistance to buyers with 115% of median income. HUD believes that the revised approach is desirable for targeting direct subsidies, such as those authorized in the trust, to the most needy.

In addition, the proposal eliminated the interest rate subsidy authorized under current law. This is because that type of subsidy is the most difficult to administer since it occurs over a long period of time, and a more efficient approach can be found in providing funds for downpayment or second mortgage assistance, which address a key barrier to homeownership.

2. Do you have statistical data to confirm that defaults on the high end mortgages are less likely to pose a risk to the fund as defaults on the low end?

Answer:

Yes. The Price Waterhouse Actuarial Review for Fiscal Year 1992, dated July 9, 1993, indicated that there is a significant inverse relationship between loan size and default risk in existing size categories of FHA loans. The FHA data for the Mutual Mortgage Insurance Fund showed that claim rates decreased as loan size increased.

CHAIRMAN GONZALEZ' QUESTIONS (cont.)

3. Are the amendments to the Home Equity Conversion Mortgage program referenced in your testimony designed to recognize the reality of the marketplace in New England cities for homes now occupied by elderly families?

Answer:

HUD proposes to extend the program as a demonstration for five years and make 2-4 family dwellings eligible for insurance. Currently, only one-family homes are eligible.

We believe this will respond to the stock more typical of New England and, in some cases, the Midwest. However, we expect the change in volume to be minimal. Finally, the proposal may also serve minority owners in some urban areas.

4. Could you explain the simplified downpayment requirements HUD will propose? Will this affect the soundness of the Mutual Mortgage Insurance Fund? What will be the impact of the proposal on loan to value ratios?

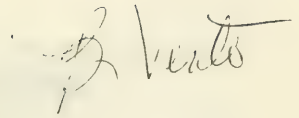
Answer:

Currently, the maximum mortgage is calculated on a graduated basis: 97% of the first \$25,000 of appraised value; 95% of the next \$100,000; and, 90% of the amount over \$125,000. The financing of applicable closing costs is permitted under the calculation. In addition, maximum loan to value ratios are prescribed by law and are 98.75% for loans of \$50,000 or less and 97.75% for loans over \$50,000.

Because the calculation is complicated, HUD proposes to replace the existing calculations with just one series of percentages. Under the proposal, the maximum mortgage will be determined as 99% of the first \$50,000 of appraised value; 96% of the next \$75,000; and, 94% of the amount over \$125,000. No other tests will be applied. Closing costs will not be financed.

The new calculation will be simpler and more understandable to participants in the program. The calculation was designed to result in mortgage amounts which are about the same as under the current program and our data show that changes in mortgage amounts generally would be small. In addition, the proposal will not affect the soundness of the Mutual Mortgage Insurance Fund.

The only area where differences may result would be for relatively higher mortgage amounts in States with relatively higher levels of closing costs. In such cases, the mortgagors cash requirements would increase slightly.



ADDITIONAL QUESTIONS
OF CONGRESSMAN BRUCE F. VENTO
FROM THE HEARING OF THE HOUSING AND COMMUNITY DEVELOPMENT
SUBCOMMITTEE OF THE BANKING COMMITTEE
APRIL 14, 1994

FOR ASSISTANT SECRETARY RETSINAS

1. How do the demonstrations for risk sharing between FHA and State Housing agencies that you have just started differ from those that are being proposed for HUD's legislative package?
2. In terms of the delegated endorsement process, how does HUD plan to monitor and oversee this process to determine and ensure adherence to underwriting guidelines which ultimately protect the safety and soundness of the MMI fund?
3. How has FHA's loan portfolio changed with the raising of the FHA high cost mortgage limit to 75% of Federal Home Loan Mortgage Corporation's limit? In what areas of the country has this change been put to use?

(Responses from Assistant Secretary Retsinas)

**QUESTIONS FROM CONGRESSMAN VENTO
TO ASSISTANT SECRETARY RETSINAS
APRIL 14, 1994, HEARING**

1. How does your legislative proposal for risk sharing with State Agencies differ from the risk sharing pilot programs you have just started with State Housing Finance Agencies?

Answer:

Currently, the Department operates a risk sharing program with State Agencies for the development of affordable rental housing. The legislative proposal you refer to involves risk sharing on single family housing. The proposals are similar in the sense that they envision partnerships as an effective way to deliver affordable housing, and they demand "real" risk sharing on the part of HUD's partner.

The proposal would allow HUD to enter into agreements with State agencies to share risk on loans which exceed the FHA maximum limit. HUD could insure the amount up to the FHA limit (but no more than 80% of value of the property), and the State agency would insure the rest. The State would be responsible for the top portion of the loss, up to the full amount that they insured.

However, the proposal is narrowly drawn, and would be applicable to States which operate insurance programs. Volume would be expected to be limited because of this. In addition, because of the significant portion of the loss that the State will pay, there should be minimal risk to FHA under this arrangement.

It should be noted that risk sharing on single family housing also is authorized under the legislative proposal for innovative affordable housing demonstrations. In that initiative, HUD would receive authority to enter into risk sharing arrangements with GSE's, State and local agencies, and others.

2. How does HUD propose to monitor the delegated endorsement process to ensure that the Mutual Mortgage Insurance Fund is protected?

Answer:

A two tiered quality control procedure will be in place to protect the safety and soundness of the MMI Fund and assure compliance with FHA underwriting guidelines. First, only those lenders with low claim rates will be permitted to endorse their own loans. HUD now monitors the claim rates of all lenders and can identify those lenders with high claim rates so that they will not be eligible for this

delegated endorsement process.

Second, the lender will be required to indemnify HUD against any losses that result from noncompliance with HUD underwriting standards and loan origination requirements, as determined by a technical review of a sampling of cases when they are submitted to HUD after insurance endorsement. An in-depth review of the case will be made after insurance endorsement to assure compliance with HUD underwriting standards. If this review reveals serious noncompliance with HUD standards to such an extent that our insurance risk is significantly increased, then the lender will be requested to indemnify HUD for any future insurance loss related to that case.

3. How has HUD's portfolio changed with the increase of the high cost mortgage limit to 75% of the conforming loan limits? In what areas of the country has this change been put to use?

Answer:

In FY 1993, FHA insured approximately 28,000 loans on one unit properties with mortgage balances between \$125,000 and \$151,725. The majority of these loans were in California, Illinois, New York, Connecticut, Hawaii, and the Washington, DC area. The total number of loans in excess of \$125,000 accounted for only 3 percent of FHA's total business in FY 1993, which indicates that these higher balance loans are a very small percentage of FHA's overall business.

PETER DEUTSCH
20TH DISTRICT, FLORIDA

COMMITTEE ON FOREIGN AFFAIRS

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THE MIDDLE EAST

SUBCOMMITTEE ON WESTERN HEMISPHERE AFFAIRS

COMMITTEE ON BANKING, FINANCE
AND URBAN AFFAIRS

SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
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April 20, 1994

The Honorable Nicolas P. Retsinas
Assistant Secretary for Housing -- Federal Housing Commissioner
Department of Housing and Urban Development
451 7th Street, S.W.
Washington, D.C. 20410

RE: April 14, 1994 hearing of the Subcommittee on Housing
and Community Development, House Committee on Banking,
Finance and Urban Affairs

Dear Mr. Retsinas:

As a Member of the Subcommittee on Housing and Community
Development, I have concerns regarding the proposed increase in
Federal Housing Administration (FHA) loan limits proposed by the
Department.

One Administration proposal would raise the base nationwide
FHA mortgage limit from \$67,500 to about \$102,000, and increase
the high cost area limit from \$151,750 to 85 percent of the
Freddie Mac/FNMA conforming loan limit, or approximately
\$172,675.

A second Administration proposal would establish a risk-
sharing mortgage insurance program to permit FHA and state
housing agencies to co-insure loans up to the Freddie Mac/FNMA
limit of \$203,150. I understand that these loans would not be
targeted by income or geographic area; nor would they be targeted
to first-time home buyers. State agencies would not be subject
to any specific capital requirements.

A third Administration proposal allows FHA to experiment
with risky alternative mortgage instruments, without any specific
requirements that the loans be targeted by income or geographic
area.

As I understand it, the Administration proposes to fund the
risk-sharing and demonstration program loans from FNMA and
Freddie Mac, rather than GNMA, even though GNMA normally
securitizes FHA-insured loans.

FHA claims for both the risk-sharing and demonstration programs would be paid out of the General Insurance Fund rather than the Mutual Mortgage Insurance Fund. The General Insurance Fund is funded by direct appropriations, meaning that the taxpayers bear any risk of loss from these proposals.

I therefore request that the Department answer the following questions:

1. The Administration proposes to use the General Insurance Fund for special needs housing programs that could be particularly risky. As you know, deficiencies in the General Insurance Fund are made up through direct appropriations. As you also know, there are no income restrictions or other targeting criteria in the proposal. Why does the Administration propose to place the risk of loss directly on the taxpayers through the General Insurance Fund?

2. The Administration, and many Members of Congress, have emphasized that private lenders and insurers must do more to serve the underserved mortgage markets -- low-income families, families living in inner cities, rural residents, and first-time homebuyers. Why is the Administration proposing to expand the FHA in order to insure higher-balance loans?

I look forward to the Department's expeditious response to these questions. Thank you very much.

Sincerely,

A handwritten signature in dark ink, appearing to read "Peter Deutsch", written in a cursive style.

Peter Deutsch
Member of Congress

(Responses from Assistant Secretary Retsinas)

**QUESTIONS FROM CONGRESSMAN DEUTSCH
TO NICOLAS RETSINAS
APRIL 14, 1994, HEARING**

1. **Why does the Administration propose to place the risk of loss from the Single Family Risk Sharing Proposal and the Innovative Demonstration Proposal on taxpayers by making these programs obligations of the General Insurance Fund?**

Typically, demonstration and pilot programs have been placed in the General Insurance fund because they pushed the limits of what FHA could do. Our new legislative proposals support this important FHA role--that of being an innovator--and so the Administration decision was to place these new initiatives in the General Insurance Fund.

The risk sharing program with State and local housing finance agencies is narrowly drawn. In effect, it allows FHA to insure up to its maximum mortgage amount on loans which exceed its limits and are originated under a State agency program. The State would insure the top portion of the loan--that is, the amount which exceeds the maximum FHA amount.

Because the State would be responsible for the top portion of any loss (up to the amount that they insure), there is minimal risk to HUD. In addition, loan to value ratios cannot exceed those allowable under the FHA program, and the States must use underwriting equal to or more stringent than the FHA process. Finally, premium sharing will cover all costs to HUD.

Under our proposed demonstration authority, we will be experimenting with risk sharing with GSE's. The demonstration programs will be limited by volume caps. Overall, the demonstrations cannot exceed 10% of previous year's business, with each demonstration limited by a five percent cap. The FY 1995 Budget Request does not estimate credit subsidy for the programs.

2. **The Administration and many Members of Congress have urged private lenders and insurers to do more in serving underserved mortgage markets. Why is the Administration expanding FHA's role in providing higher-balance loans?**

HUD supports private efforts to address the needs of low and moderate income families, and we look forward to these efforts enduring and being successful over the long term.

We are only one of many actors in the housing market, and we firmly believe there must be a variety of housing providers and partnership efforts to meet low income needs. Our proposal to raise limits does not conflict with this.

Nor is our proposal to raise limits intended to compete with private lenders or insurers. If you look closely at all the proposals we have presented, including the risk sharing and demonstration authorities, you will see that we encourage partnership efforts (and not competition) with lenders, private insurers, and GSE's.

The increases in the limits open up FHA financing to buyers in relatively high cost areas who may still be facing difficulties in purchasing median priced housing in these areas. Making FHA available for average cost housing in all markets on a continuing and dependable basis is sound social policy. Don't forget, other private participants will move into and out of markets as economic and business circumstances change. This happened in the mid-1980's and it will happen again. We want to make sure that FHA will be able to offer assistance in these markets at all times.

FHA's current market share is only about 13%. Even though limits would be increased under our proposals, we would continue to serve underserved buyers such as first time buyers, female headed households, and minority purchasers just as we do now. In addition, it is the case that many of those who are used to taking advantage of conventional financing will continue to do so because of certain disincentives (such as premium pricing and processing requirements) to participating in the program.

The key point, however, is that the increase in the limits will enhance the ability of FHA to reach out to underserved buyers precisely because it will result in some additional new business which will be sound. This will strengthen the Mutual Mortgage Insurance Fund and allow us to undertake special efforts to house low and moderate income families. This will be effected through counseling, property disposition or other program initiatives.

This "balancing" approach, which takes advantage of the cross subsidization inherent in a mutual fund like the MMIF, is an effective way to meet our homeownership objectives.

In summary, HUD is attempting to place realistic limits, with appropriate indices, on its programs so that we can adequately serve our market. We are significantly below the FNMA/FHLMC threshold on the high end, and the increase in the floor limits is only a partial step in restoring FHA's relative position to the market which existed in 1980.

April 14, 1994

Rep. Michael N. Castle

HOUSE BANKING SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
HUD'S FY 1995 LEGISLATIVE PROGRAM

Question for Nicholas Retsinas, Assistant Secretary for Housing:

THE FEDERAL HOME LOAN BANK'S AFFORDABLE HOUSING PROGRAM

* The Federal Home Loan Bank (FHLB) is actively seeking to promote its program to increase lending for affordable housing. For example, the FHLB of Pittsburgh is trying to attract lenders and community groups in Delaware to take part in their program. What is your opinion of the FHLB program? Is this type of program we should be promoting?

- Do you have any specific comments on the merits or costs of the FHLB effort?

(Response from Assistant Secretary Retsinas)

QUESTION FROM CONGRESSMAN CASTLE
TO NICOLAS RETSINAS
APRIL 14, 1994, HEARING

1. The Federal Home Loan Bank is seeking to promote its affordable housing program. What is your opinion of the program? Should we be promoting it?

Answer:

On April 25, 1994, HUD released its report to Congress on the FHLB system. The report found that the Affordable Housing Program and the Community Reinvestment Program--which are their two main initiatives to promote affordable housing finance--are sound. The report indicated that the Banks especially can help to support member compliance with CRA.

It appears that your example of activities by the Federal Home Loan Bank of Pittsburgh is consistent with this. We understand that the Bank's activities in the State of Delaware are part of the Bank's continuing effort to encourage members, community based organizations, and State and local government agencies to participate in the affordable housing and community investment programs. These activities include workshops, seminars, visits to members, and regular mailings to members and community investment partners.

HUD strongly supports private sector efforts to provide affordable housing to low and moderate income families, and we hope they are durable and successful.

STATEMENT BEFORE THE HOUSE COMMITTEE
ON BANKING, FINANCE AND URBAN AFFAIRS
SUBCOMMITTEE ON HOUSING AND
COMMUNITY DEVELOPMENT

WASHINGTON, DC
APRIL 14, 1994



BY
ROBERTA ACHTENBERG
ASSISTANT SECRETARY
FOR FAIR HOUSING AND EQUAL OPPORTUNITY

Mr. Chairman, members of the Committee, I am pleased to have the opportunity to testify on H.R. 3838 and HUD's 1995 legislative package concerning programs of interest to the Office of Fair Housing and Equal Opportunity.

H.R. 3838

The bill introduced by the Chairman contains reauthorization of the Fair Housing Initiatives Program (FHIP) for the years 1995 and 1996. We are pleased to see the continuing increase in funding for this program. Congress revised the FHIP program in the Housing and Community Development Act of 1992, by adding an increased focus on lending discrimination and building the capacity of fair housing enforcement organizations, particularly in unserved and underserved areas. We have responded to the lending initiative by undertaking a study of pre-application practices of lenders in three cities through testing of lending institutions (both depository and non-depository). The results of that study are expected late this summer.

We have just completed reviewing the FHIP applications for the latest funding cycle and expect to announce the winners of the competition in the near future. I was struck by the breadth and diversity of the proposals being submitted and the many new groups that are applying for funding.

We will soon be publishing our Fiscal Year 1994 Notice of Funding Availability (NOFA) and be able to place even more FHIP funds in the hands of the private fair housing organizations (and State and local human rights agencies) that have played such a key role in advancing the fair housing agenda through enforcement and education and outreach.

FY 1995 ADDITIONAL PROPOSALS

Mr. Chairman, you will soon be receiving a number of additional legislative proposals relating to Fair Housing and Equal Opportunity. These proposals support the efforts of the President, as evidenced by Executive Order 12892, and those of Secretary Cisneros, to affirmatively further fair housing, to continue the assault of the Federal Government on lending discrimination and to enhance economic opportunities in connection with HUD programs. The proposals are summarized as follows:

- Metropolitan Areawide Assisted Housing Strategy Demonstration
- Treating Expenditures to Affirmatively Further Fair Housing as Eligible Activities in their own Right under the Community Development Block Grant Program
- Expanded use of amounts in Section 213(d)

Headquarters Reserve in Connection with Civil Rights Litigation

- Authority to Levy Civil Money Penalties on Non-Reporters under the Home Mortgage Disclosure Act
- Economic Opportunities for Residents in HUD-Assisted Programs

METROPOLITAN AREA-WIDE ASSISTED HOUSING STRATEGY DEMONSTRATION

Under this three-year demonstration the Secretary would select consortia of units of general local government in three different regions to market HUD-assisted housing on a metropolitan area-wide basis. The demonstration is designed to determine how best to:

- affirmatively further fair housing and address the problem of racial segregation in metropolitan areas,
- fill vacancies in assisted housing by use of consolidated waiting lists,
- enlist cooperation of local governments, public housing agencies and private owners of assisted housing in affirmatively furthering fair housing,
- make public housing a path to social and economic mobility, and
- eliminate housing discrimination

A nonprofit organization would administer a clearinghouse in each metropolitan area. The clearinghouse would operate a consolidated waiting list of available Federally-assisted housing units in each participating metropolitan area. PHAs and other housing providers would report their vacancies to the clearinghouse as they occurred. The clearinghouse would carry out an active housing counseling, fair housing information and support program to encourage applicants to consider housing throughout the area.

An independent evaluation of the demonstration would assist HUD and the Congress to determine whether current programs should be revised or new ones created.

The program would be funded through a set-aside of up to 3,000 tenant based certificates for each of the three years; \$9 million for modernization to be provided to central city PHAs participating in the demonstration. This \$9 million will be used to increase the security and enhance the attractiveness of the properties of participating PHAs. In addition, \$15 million a year will be spent for costs relating to regional planning, housing counseling and administrative costs of the demonstration.

AFFIRMATIVELY FURTHERING FAIR HOUSING AS AN ELIGIBLE ACTIVITY
UNDER THE CDBG PROGRAM

Congress has for many years required that all recipients of CDBG funds, entitlement communities and states alike, certify that they will affirmatively further fair housing. To this end, some communities (and states) conduct analyses of impediments to fair housing and take steps to overcome the impediments. Some communities enact fair housing laws equivalent to the Federal law. Other communities fund fair housing groups to test real estate practices, fund Community Housing Resource Boards, work with local lenders to assure that there is no discrimination in lending and conduct a variety of other activities.

The statutory cap of 15% on public service activities (Section 105(a)(8)) has sometimes been a deterrent to a community wishing to expend funds on fair housing activities. We propose to make activities to further fair housing eligible activities in their own right, both to indicate our support of such activities and remove any impediment to taking the necessary steps to address local problems in this area.

USING SECTION 213(d) TO SETTLE CIVIL RIGHTS LITIGATION

When Secretary Cisneros arrived at HUD, one of the first things he noticed was the number of lawsuits he inherited. Many of them involved claims that HUD had contributed to segregated housing by inadequate program oversight, including Omaha, East Texas, West Dallas, Allegheny County, PA, Minneapolis and others. The Secretary directed his program Assistant Secretaries and General Counsel to examine these lawsuits and attempt to settle them if the claims were meritorious.

When we addressed the claims in the above lawsuits we found that we did not have all of the necessary tools to craft appropriate remedies. Section 213 could supply Section 8 vouchers, if we needed them for settlement, but it could not supply the means to fund mobility counseling for the voucher holders to assure that they had a full range of housing choices. Nor could it provide funds for a fair housing enforcement group to assure that the practices complained of did not recur.

What we seek in our legislative proposal is a means to assure that we can provide a full range of appropriate remedies in the settlement of civil rights litigation. We do not intend to settle cases indiscriminately, or without regard to available resources. We do believe that the additional flexibility that would be provided without an increase in funding would definitely be of assistance.

CIVIL MONEY PENALTIES FOR HMDA VIOLATORS

When Congress passed the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) it substantially strengthened the Home Mortgage Disclosure Act (HMDA) by requiring the reporting of the race, gender and income of borrowers and applicants for home mortgages.

The Act also established the Secretary of HUD as the designated reporting agency for lenders not regulated by other Federal financial agencies. FIRREA also attempted to provide enforcement authority to HUD to assure proper HMDA reporting, but failed to do so. And the Department of HUD Reform Act of 1989 provided civil money penalty authority, but only with respect to mortgagees that do business with HUD. Although a number of reporters are HUD-approved mortgagees a number of them are not. These reporters are free to ignore the requirements of HMDA without any remedial action available to the Department.

This Administration has been very aggressive in its pursuit of lending discrimination. A ten-agency Interagency Task Force on Lending Discrimination was convened by Secretary Cisneros, Attorney General Reno and Comptroller of the Currency Ludwig along with active participation by the Office of Thrift Supervision, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Federal Housing and Finance Board, the Federal Trade Commission, the National Credit Union Administration, and the Office of Federal Housing Enterprise Oversight. Just last month, the Task Force issued a major Policy Statement on Lending Discrimination stating that, for the first time, they would consistently enforce a law that has been on the books for 26 years. While the statement itself was a consolidation of existing law, the event was without precedent in the annals of banking history.

Part of this lending enforcement effort includes review and analysis of HMDA data. Obviously, the combined efforts of these agencies to enforce both the Fair Housing Act and other civil rights statutes will not be limited to lenders who do business with HUD. Equalization of the civil money penalty requirements for all HMDA reporters will help ensure consistent and effective enforcement. Therefore, we believe that it is appropriate to fill the gap in enforcement of HMDA by allowing HUD to levy civil money penalties against non-reporters or those who submit inadequate or incomplete data.

ECONOMIC OPPORTUNITIES FOR RESIDENTS IN HUD-ASSISTED PROGRAMS

Section 3 of the Housing and Urban Development Act of 1968 has never lived up to its promise. Congress wanted HUD to provide job, training and business opportunities to residents of

the neighborhoods surrounding HUD assisted housing and community development projects. It took the Department five years to issue its first Section 3 regulations, which it finally did in 1973 only after a Federal District Court judge threatened to jail then-Secretary Lynn if the regulations were not forthcoming.

Despite several legislative changes to section 3 HUD never updated its regulations. The promise of the Act became virtually a dead letter. Then, in 1992, Congress revised and breathed new life into Section 3. HUD responded by publishing proposed regulations in late 1993. Interim regulations will soon be issued.

However, even with the new legislation and regulations, Section 3 is likely to continue to fall short of its promise because recipients and contractors need assistance in meeting their obligations. We propose that HUD program funds be made available for job-related activities, such as training, supervision of trainees and job recruitment. In addition, we will request an authorization of \$25 million for FY 1995 to support the creation of Economic Opportunity Centers, (EOC), to establish employment and business initiatives with other Federal agencies (Departments of Labor, Commerce, Health and Human Services and the Small Business Administration) and to develop a Section 3 management and technical assistance program.

The EOCs would be co-located with Family Investment Centers and coordinated with the Public Housing Comprehensive Grant program. Thus, residents could be linked with the jobs generated by HUD-assisted construction. The EOCs could maintain job banks, assist contractors to develop Step-Up and other training and apprenticeship initiatives, and train and fund resident councils to spread the word about Section 3.

We believe that with the adoption of these regulations the promise of Section 3 would be more fully realized after 25 years of inaction.

Thank you for the opportunity to present our program, Mr. Chairman. I would be happy to answer any questions.

QUESTIONS FROM CHAIRMAN HENRY B. GONZALEZ TO
ASSISTANT SECRETARY ACHTENBERG

April 14, 1994, hearing held by the
Subcommittee on Housing and Community Development,
entitled "H.R. 3838, Housing and Community
Development Act of 1994"

Questions -- Fair Housing

1) HUD's proposed Metropolitan Areawide Demonstration program has the laudable goals of determining ways of addressing racial segregation in metropolitan areas, and of furthering fair housing. However, the program appears in some respects to duplicate other HUD programs that promote housing choice and deconcentration, such as the Moving to Opportunity for Fair Housing program, and the HUD proposed "Choice in Residency Program." Could you please explain how the Metropolitan Areawide Demonstration program would operate, and how it would differ from these other programs?

2) How would HUD's proposed Economic Opportunity Centers function, and how would they differ from Family Investment Centers?

3) HUD is proposing to expand use of the amounts in the HUD Headquarters Reserve for additional purposes in connection with the settlement of civil rights litigation brought against the Department. Please explain how current law limits HUD's ability to settle these lawsuits, and what specific additional settlement activities would be permitted by HUD's proposed change?

4) I applaud Secretary Cisneros decision to make ending housing discrimination and promoting fair housing choice priorities of the Department. This is an area that has long been neglected by HUD. What specific actions has the Department taken to further these goals, and what have you found to be the principal deterrents to making these goals a reality?

(Responses from Assistant Secretary Achtenberg)

1

1 Response to Questions from Chairman Gonzalez

Q1. How would HUD's proposed Economic Opportunity Centers function?

A.

Objective

The objective of the Economic Opportunity Centers (EOCs) is to provide services necessary to link low income residents with jobs and other economic opportunities generated by HUD-assisted projects.

Persons Served/Customers

These Centers will provide job-linkage services for both residents and employers. Eligible residents include public housing residents, Section 8 housing assistance tenants, homeless persons, and other low income residents of HUD-assisted neighborhoods. Potential employers include, but are not limited to: public housing and community development agencies, construction contractors, suppliers and developers.

Scope of services

The scope of services to be provided at these Centers cover employment development, business development and related

support services. The Centers will include the on-site delivery of services, dissemination of information, and provision of referrals. Centralized job information (job banks), skills banks (listing of employees with various skills), counseling and case management will be available. Trainee support such as child care, transportation, special services and stipends are eligible expenses. Available information and counseling will include such matters as income support programs and the earned income tax credits. The Centers will provide intake of applications, skills assessment, basic skills preparation and employer linkages.

Economic Opportunity Centers may provide space to government agencies, institutions of higher education (including vocational schools), and private/non-profit organizations to provide neighborhood "on-site" services.

Examples of eligible activities are as follows:

- * Maintaining a "job bank" of positions connected with CDBG, Homeless Assistance, HOME and other Section 3 covered project recipients and contractors, as well as listings of jobs available in the private sector;
- * Maintaining a "skills bank" of skills available among residents;
- * Conducting or sponsoring training on job-readiness and job-search skills;
- * Development and implementation of training and apprenticeship programs, such as Step-Up;
- * Training and assisting resident groups and community-based organizations to serve as "intermediaries" in identifying and linking residents with available jobs and contracts on HUD-assisted projects;
- * Conducting or sponsoring instruction on the development and management of businesses enterprises;
- * Financial "gap" support for establishment or

stabilization of micro-enterprises or other businesses;
and

- * Funding essential training and support services that cannot otherwise be paid.

Co-location with Family Investment Centers

Initially, Economic Opportunity Centers will be located within or near public housing developments and will be operated, either directly or under contract with another agency, by the PHA. The Economic Opportunity Centers will operate in conjunction with Family Investment Centers (FICs). After the first year of grant awards, the Economic Opportunity Center program will be expanded to allow community development corporations, local non-profit organizations, and local governments to receive funding.

How would HUD's proposed Economic Opportunity Centers differ from Family Investment Centers (FICs)?

Purpose of FICs

The Family Investment Centers (FICs) Program provides funding to public and Indian housing agencies (HAs) to access educational, housing, or other social service programs to assist their residents to achieve self-sufficiency. These services facilitate better access to training and employment. HUD views the co-location of EOCs and FICs as a first step in achieving the coordination desired.

Differences Between FICs and EOCs

- * Only 15% of FIC funds may be used for supportive services. The bulk of the funds will be used for the renovation or conversion of facilities. Most EOC funds will be used to provide the necessary training, referral, information dissemination and other supportive services and financial assistance, as described above, to link residents with jobs and contracts.

- * FIC services are limited to residents of public and

Indian housing. In contrast, all low income residents are eligible to receive the services of Economic Opportunity Centers.

- * FICs do not provide services related to business development. Economic Opportunity Centers, in addition to providing for employment related services, focus on activities that stimulate and facilitate business development and entrepreneurship.

Why co-location with FICs is proposed

- * Many of the housing agencies with FICs also will have modernization funds. FHEO believes public housing is an appropriate target for early EOC efforts because of the large amount of covered-program dollars spent there and because programs such as modernization generate new jobs. The ability of the modernization programs to pay for training will further facilitate coordination of training and employment efforts.
- * Affirmative Section 3 efforts have been incorporated in the public housing resident initiatives and development programs. For example, in FY 1994, PHAs receiving comprehensive grant funds may voluntarily set goals for hiring residents and making contract awards to

residents. Also, applicants for FIC grants must make best efforts to hire HA residents.

Q2. HUD's proposed Metropolitan Areawide Demonstration program has the laudable goals of determining ways of addressing racial segregation in metropolitan areas, and of furthering fair housing. However, the program appears in some respects to duplicate other HUD programs that promote housing choice and deconcentration, such as the Moving to Opportunity for Fair Housing program, and the HUD proposed "Choice in Residency Program." Could you please explain how the metropolitan Areawide Demonstration program would operate, and how it would differ from these other programs?

A. HOW METROWIDE WOULD OPERATE

Under the Metropolitan Area-Wide Strategy Demonstration, the Secretary would competitively select three consortia of local government applicants in three different metropolitan areas to establish a one-stop application process for all assisted housing within a metropolitan area and to market all assisted housing metropolitan area-wide through private, nonprofit clearinghouses. Each demonstration could be approved for a period of up to three years.

These demonstrations will help carry out the Secretary's statutory mandate under the Fair Housing Act to affirmatively further fair housing in all programs of housing and urban development. In addition, the demonstrations will fulfill President Clinton's directive in Executive Order 12892 and the accompanying Presidential Memorandum, signed January 16, 1994, to undertake pilot programs, together with other federal agencies as

he deems appropriate, to further fair housing and to address problems of metropolitan segregation.

These demonstrations will also promote innovation: (1) in addressing racial segregation in the Department's assisted housing programs; (2) in providing meaningful choice among assisted housing locations and among assisted housing programs to all applicants for assisted housing; and in advancing the Secretary's objective to affirmatively further fair housing. It will do so by allowing the Department to identify statutory impediments to achieving fair housing and reinvent the way assisted housing programs are marketed, applications are taken, applicants are counseled and waiting lists are managed.

While the selected local government consortia and their clearinghouses and PHAs would be bound by State and local law, the Secretary could waive Federal statutory requirements applicable to the assisted housing programs involved in any of the demonstrations, except for requirements pertaining to environmental protection and labor standards.

The Secretary will select among applicant consortia and their nonprofit clearinghouses in a manner that takes into account such factors as (1) the need for a range of metropolitan area sizes, (2) the extent of racial separation, isolation and segregation in assisted housing in the applicant's metropolitan

area, (3) the segregation between assisted housing programs, (4) the capacity of the applicants' clearinghouses to carry out the demonstration, (5) the degree of cooperation and coordination achieved among governments in the metropolitan area and between government and private assisted housing providers and (6) the potential effects and benefits the variations on regional planning, housing counseling and other support services and approaches to marketing strategies proposed by each applicant could have on the racial patterns in assisted housing programs if the variations were adopted nationwide.

The Secretary would be authorized to establish all requirements he determines to be necessary and appropriate for the conduct of these demonstrations.

In each of three metropolitan areas a one-stop application clearinghouse will be operated by a not-for-profit private organization funded by HUD through a consortia of local governments for a three year period.

Each clearinghouse would design and operate a consolidated waiting list for all federally-assisted family housing programs operating in each participating jurisdiction within the selected metropolitan area. (Elderly housing programs would not be included.) An applicant for any assisted housing program within the metropolitan area would be placed on the waiting list and be considered for all assisted housing programs for which the

applicant was eligible, in all jurisdictions participating in the program. An applicant could refuse housing in one program without affecting his or her status on other waiting lists, thus allowing the applicant to consider alternatives not traditionally considered.

Each clearinghouse would be required to seek the greatest possible level of cooperation from private, federally assisted (including FHA insured and public) housing providers and state and local publicly assisted housing providers, by encouraging them to list all vacancies with the clearinghouse and make selections from tenants referred from their lists.

Each clearinghouse would carry out a broad information outreach campaign to reach all eligible families and individuals seeking housing within the metropolitan area. No single racial or ethnic group would have an advantage in applying for housing.

Each clearinghouse would review eligibility, perform income and employment verification, check previous tenant history and secure all information necessary to determine federal and local preferences.

Housing vacancies in each program would be reported to the clearinghouses by housing providers as they occurred. No residency preferences would be permitted in the federal

preference categories. Local residency preferences would be allowed only after review by the Department to ensure that they were not inconsistent with the demonstration objectives or violative of the Fair Housing Act.

First priority within all preference categories would be given to those who wished to select a location that is not racially predominant and they would be allowed to select the project of their choice and await a unit at a selected non-predominant site. **Housing providers** would carry out tenant suitability screening of all applicants referred from each clearinghouse and could accept or reject them for good cause.

The clearinghouses would carry out an active fair housing information program to encourage applicants to consider choices which would promote fair housing. This would include escort services to neighborhoods where the applicant's race is non-predominant, counseling regarding social services available in such neighborhoods, information regarding transportation alternatives, schools and health care, establishing tenant support groups to overcome the "pioneer" obstacle.

PHAs in the selected metropolitan areas would be expected to provide incentives to improve the attractiveness of selected public housing developments, achieve desegregation and to affirmatively further fair housing. These measures would be

aimed at changing the perception of public housing as the housing of last resort. Instead, they would be intended, in combination with other proposed measures, to make presently minority-dominated public housing attractive to and a path to social and economic mobility for non-minorities as well. CDBG recipients would be expected to use block grant funds and other available funding to provide social and human services at selected locations to serve as incentives for those whose race does not predominate to choose those sites.

HUD would require PHAs as a condition of selecting the applicant consortia to focus their comprehensive modernization funds upon developments that are predominantly minority and where disparities in services and amenities exist.

HOW DOES METROWIDE DIFFER FROM "MOVING TO OPPORTUNITY" (MTO)
AND "CHOICE IN RESIDENCY" (CIR) DEMOS?

While there are clearly commonalities, the Metropolitan Areawide Demonstration (Metrowide) proposal is different in a number of respects from MTO and CIR.

Both MTO and CIR will be important vehicles for testing area income approaches, or tenant based assisted housing approaches to

expanding housing choice for low-income families. They are not as broad in scope as the affirmative marketing approaches in the Metrowide, which involve all assisted programs, both project and tenant based and include PHA and private provider owned developments.

Furthermore, Metrowide includes a component aimed at enhancing the attractiveness of developments currently in minority predominant areas, to provide meaningful housing choice and quality housing both within and outside of minority predominant areas, allowing broader choice for minority and non-minority families alike. Finally, Metrowide includes other incentives such as social and human service program support, upgraded security measures, job training opportunities and transportation subsidies, and for those choosing assisted housing developments where their race not predominate. Also, Metrowide calls for targeted modernization of inner-city public housing developments and infrastructure support. These elements of the Metrowide program will call upon localities and other federal agencies to contribute resources to the demonstration.

The primary focus of both MTO and CIR is to broaden housing choice for eligible lower-income families and individuals in higher income areas exclusively through use of Section 8 existing certificates, i.e., through tenant-based programs. Metrowide combines all assisted housing programs in a centralized waiting

list to expand choice, overcoming the segregation that exists within assisted programs as a result of separate program waiting lists, separate locality waiting lists and segregation by both program and location. It will emphasize incentives to those who choose housing in areas where their race does not predominate, both minority and non-minority. Therefore, its focus will be primarily the project-based programs, both PHA and private provider operated. The list will include "magnet" public housing projects improved with modernization funds and a variety of other funding sources.

MTO is a 10-year demonstration at the jurisdictional level that will involve Section 8 certificate assistance to approximately 2,000 low-income families who agree to choose housing in higher income areas. Each of 3 Metrowide demonstrations will operate for up to 3 years, with 1,000 vouchers a year, on a multi-jurisdictional level with an emphasis on desegregative choices.

Fair Housing regional planning and an array of support services are key features of Metrowide, but they are not essential to the income-based concepts to be tested in MTO and CIR.

Metrowide, as proposed, would provide the Secretary of HUD with broad waiver authority in assisted housing programs to

permit new approaches to affirmative marketing. Neither MTO nor CIR involve the need for waivers of Section 8 existing program requirements.

Finally, the Metrowide concept includes involvement and funding from other Federal, state and local sources on educational programs, transportation, job counseling and training, law enforcement and other activities not included in MTO and CIR.

Q3. HUD is proposing to expand use of the amounts in the HUD Headquarters Reserve for additional purposes in connection with the settlement of civil rights litigation brought against the Department. Please explain how current law limits HUD's ability to settle these lawsuits, and what additional settlement activities would be permitted by HUD's proposed change?

A. Section 213(d) of the Housing and Community Development Act of 1974, as amended, allows the Secretary to retain 5 percent of the financial assistance that becomes available under the U.S. Housing Act of 1937 for natural and other disasters, emergencies, the settlement of litigation and support of desegregation efforts. In all cases the reserved funds may be used for housing needs only. Although housing vouchers are a common remedy in civil rights litigation against the Department, and may be funded under the existing law, HUD has found that non-housing items may be equally important to providing litigants with a legally sufficient remedy upon which settlement could be predicated. Examples would include mobility counseling to assure choice in housing, and stepped-up enforcement of the fair housing laws by private non-profit organizations.

Q4. I applaud Secretary Cisneros decision to make ending housing discrimination and promoting fair housing choice priorities of the Department. This is an area that has long been neglected by HUD. What specific actions has the Department taken to further these goals, and what have you found to be the principal deterrents to making these goals a reality?

A. Among the steps HUD has taken to end housing discrimination and promote fair housing choice have been the following:

- Took over the Vidor (TX) Housing Authority when it showed itself unwilling to provide a suitable environment for African Americans moving into a formerly all-white project. As a result of HUD's initiatives 14 African-American families now reside in the Vidor project and 18 more are on the waiting list.

- Developed an interagency policy statement on lending discrimination which was issued in March 1994.

- Created separate Headquarters offices to deal with the problems of lending discrimination and insurance redlining.

- Reorganized HUD's field structure so that all of HUD's FHEO staff report directly to the Assistant Secretary.

- Restructured the Fair Housing Initiatives Program so that the money could be committed more quickly and the program could focus on important current issues, such as lending discrimination and insurance redlining.

- Enhanced cooperation between HUD and state and local fair housing agencies so that HUD could advise them on how to make their laws substantially equivalent to the Federal law.

The principal deterrents to achieving fair housing choice include the following:

- Fair Housing & Equal Opportunity issues have, in the past, been treated as secondary to achieving Department goals. Secretary Cisneros has addressed this problem not only by making reduction of racial barriers to residential mobility a goal but by recognizing that FHEO is a program on a par with the other major programs of the Department. For example, in considering the settlement of civil rights litigation FHEO is an equal partner with the HUD program involved in determining the best strategy to address such lawsuits.

- The Department has failed to reexamine its principal policies that affirmatively further fair housing. Such policies as Site and Neighborhood Standards and Affirmative Marketing, adopted in the early 70's require translation to the programs of the 90's. We are currently undertaking a review of all HUD's programs to assure that they affirmatively further fair housing to the maximum extent.

- The Department has failed to use its leadership role with

other Federal departments and agencies to affirmatively further fair housing. President Clinton's Executive Order 12892, issued on January 17, 1994, provides a clear direction to Secretary Cisneros to serve as Chair of a Cabinet level President's Fair Housing Council to address the many areas where interagency cooperation can achieve positive results. Even before the Executive Order, the Secretary had helped to create a ten agency Interagency Task Force on Fair Lending which, in early March of this year, produced an unprecedented Policy Statement on Lending Discrimination.

Questions
from
The Honorable Lucille Roybal-Allard

Committee on Banking, Finance and Urban Affairs
Subcommittee on Housing and Community Development
Housing Reauthorization

April 14, 1994

To Secretary Roberta Achtenberg
Assistant Secretary for Fair Housing and Equal Opportunity

1. Improving Staffing, Training and Procedures

**** Ms. Achtenberg, could you elaborate on your office's plans to improve staffing, training and procedures so that the investigation and resolution of housing discrimination complaints can be handled in a more timely fashion?

2. Conciliation of Discrimination Complaints

**** Ms. Achtenberg, some advocacy groups believe that HUD's conciliation process for the resolution of discrimination complaints is unfair to low income tenants. Could you explain the conciliation process and how the rights of all parties are protected?

3. Oversight of Certified Agencies

Does HUD have plans to more aggressively monitor and decertify state and local agencies that do not effectively enforce Fair Housing Laws?

(Responses from Assistant Secretary Achtenberg)

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Response to Questions from Lucille Roybal-Allard

Q1. Improving Staffing, Training and Procedures

Ms. Achtenberg, could you elaborate on your office's plans to improve staffing, training and procedures so that the investigation and resolution of housing discrimination complaints can be handled in a more timely fashion?

A.1. My office is committed to significant revisions in our staffing, training and process to ensure full, fair, and timely resolutions in housing discrimination cases.

The Secretary has approved several additional positions in FHEO's Office of Investigations. Our first priority is increased staffing in both the systemic investigations unit, which directly investigates and coordinates investigations by investigators in the field, and the case processing unit, which reviews recommendations from the field on individual cases. These positions, along with significant re-allocation of existing staff, will provide more resources in Washington to improve case processing.

My office is conducting an aggressive program of training on investigation procedures. We have already conducted national training for all investigators and their supervisors, in conjunction with the Office of General Counsel and the Department of Justice, on a variety of investigative issues. We are planning training on the complaint intake process, which will be

heavily oriented toward providing comprehensive, customer-oriented information to prospective complainants, and appropriate referrals for those who do not appear to claim a violation of the Fair Housing Act. The training will be presented in June. Additionally, we have provided, and will provide, further training to investigators on statistical analysis in fair housing cases, a subject which is particularly important to our initiatives to pursue mortgage lending and insurance discrimination, but which is applicable to a number of types of fair housing cases.

We have already issued direction and guidance to our staff in the field on topics as diverse as the applicability of the disparate impact theory of discrimination to cases under the Fair Housing Act, to the effect of the First Amendment to certain kinds of behavior which might violate the Act, to discrimination in the assessment of occupancy fees, to effective intake procedures. We have asked each of the managers of our enforcement centers to develop concrete plans to improve the time in which case investigations are completed and to reduce the number of cases which are closed as administrative closures.

We are also in the final stages of national implementation of a new notification process for parties to cases when investigations take longer than 100 days. This notification will include the specific reason or reasons why the investigation

cannot be completed within 100 days, and a projected date for completion of the investigations, as well as the names of contact persons who can provide further information as necessary. The Office of Investigations in Washington will monitor the implementation of this informational process to ensure its effectiveness and accuracy, as well as timely completion of investigations.

Q2. Conciliation of Discrimination Complaints

Ms. Achtenberg, some advocacy groups believe that HUD's conciliation process for the resolution of complaints is unfair to low income tenants. Could you explain the conciliation process and how the rights of all parties are protected?

A.2. The Fair Housing Act authorizes the Department to engage in conciliation efforts at any point following the filing of a complaint. In many instances, early stage conciliation helps resolve important issues for complainants who are confronted with eviction, refusal to rent or sell housing which is otherwise available, or other time-sensitive concerns.

At the same time, the Department is sensitive to issues relating to correction of policies or practices which led to the alleged discrimination. We are encouraging staff who participate in such discussions with complainants to identify early in the process those cases which might be candidates for early conciliation, advise the complainants and respondents of the advantages of such a process, and advise the complainants of their rights to a full investigation of the case if that is their

choice. We believe that the better the information that is given to complainants, the better equipped they will be to make appropriate choices about settlement. We will be reinforcing these messages in national training in June. Additional guidance and training to investigative staff on improved conciliation techniques was provided last year, early in this administration.

Q3. Oversight of certified agencies

Does HUD have plans to more aggressively monitor and decertify state and local agencies that do not effectively enforce Fair Housing Laws?

A.3. The Department is committed to ensuring that, when state or local agencies enforce laws which are deemed to be equivalent to the federal Fair Housing Act, they do so comprehensively and effectively. While many such agencies have done an admirable job in this enforcement, we have found it necessary to impose performance requirements on some agencies. We are affirmatively providing technical assistance and performing monitoring visits to agencies who are enforcing these laws to ensure that they have adequate information about the standards which the Department will apply to their performance. However, agencies which are not able to perform successfully will be at risk of losing their certification status.

**QUESTIONS FROM CONGRESSMAN MEL WATT TO
ASSISTANT SECRETARY ROBERTA ACHTENBERG**

**April 14, 1994, hearing held by the
Subcommittee on Housing and Community Development,
entitled "H.R. 3838, Housing and Community
Development Act of 1994"
(HUD's 1994 legislative initiatives)**

- 1) I am interested in knowing how the proposed Economic Opportunity Centers program would differ from the existing Family Investment Centers program? The two programs appear similar in purpose.
- 2) How would the Economic Opportunity Centers program involve or be coordinated with the "STEP-UP" job-training program?

(Responses from Assistant Secretary Achtenberg)

Congressman Mel Watt

Question 1: How does the proposed Economic Opportunity Centers (EOC) program differ from the existing Family Investment Centers (FIC) program?

Although Economic Opportunity Centers (EOCs) and Family Investment Centers (FICs) have similar purposes, there are differences between the programs with respect to the (1) target population, (2) restrictions on the use of funds, (3) scope of services, and (4) eligible applicants.

The objective of the EOCs is to provide services necessary to link low-income residents with jobs and other economic opportunities generated by HUD-assisted projects. The purpose of FICs is to provide families living in public and Indian housing better access to education and employment opportunities.

Differences Between FICs and EOCs

1. FICs provide services solely for residents of public and Indian housing (and, in limited instances, Section 8 program participants). In contrast, EOCs provide services to all low-income residents of neighborhoods where HUD-assisted projects are located, including but not limited to public housing residents. In some communities, low-income persons who are NOT public housing residents will be reluctant to use services within a public housing development, even if the neighborhood residents are eligible to receive the services.
2. The bulk of FIC funds are used for the renovation or conversion of facilities. FIC funds can be used to cover only 15% of the total cost of supportive services provided at the Family Investment Center. In contrast, most EOC funds will be used to provide the necessary training, referral, information dissemination, business development and other supportive services and financial assistance to link residents with jobs and contracts.
3. The primary focus of the supportive services provided by FICs is related to education and employment training. Economic Opportunity Centers, in addition to providing employment related services, include activities that stimulate and facilitate business development and entrepreneurship. Additionally, EOCs will be able to provide space to government agencies, institutions of higher education (including vocational schools), and private/non-profit organizations for "on-site" services and, where necessary, provide financial assistance/stipends to eligible residents.

Congressman Mel Watt

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4. Eligible applicants for FIC grants are restricted to Public and Indian housing authorities (HAs), whereas EOCs are limited to HAs only during the first year of funding. In subsequent years, State and local governments, public and private non-profit organizations, public and Indian housing agencies, and other public or private entities (including community-based organizations) would be eligible applicants for EOC grants.

Why co-location with FICs is proposed

The EOC program would require co-location with FICs for the first round of grant awards as a way to leverage resources. HUD views the co-location of EOCs and FICs as a first step in achieving coordination among programs.

- * Many of the housing agencies with FICs also will have modernization funds. FHEO believes public housing is an appropriate target for early EOC efforts because of the large amount of covered-program dollars spent there and because programs such as modernization generate new jobs. The ability of the modernization programs to pay for training will further facilitate coordination of training and employment efforts.
- * Affirmative Section 3 efforts have been incorporated in the public housing resident initiatives and development programs. For example, in FY 1994, PHAs receiving comprehensive grant funds may voluntarily set goals for hiring residents and making contract awards to residents. Also, applicants for FIC grants must make best efforts to hire HA residents.
- * The EOC program would require co-location with FICs only during the first year of funding as a way to leverage resources. Through co-location, FIC funds would cover the cost of creating a facility to house an FIC and EOC. EOC funds would supplement the FIC funds directed towards supportive services since only 15% of the service costs incurred at an FIC can be funded by an FIC grant. EOCs would augment the job listings located at FICs by providing greater access to and more information about jobs connected with HUD-assisted projects. Since EOCs and FICs both serve public housing residents, the co-location of the two centers extends the funds that each center would otherwise use separately to provide services to this population. Additionally, co-location allows for the delivery of a comprehensive array of services. In subsequent years, co-location of EOCs and FICs still would be permissive, but not required. The greater flexibility in future funding rounds would permit the establishment of EOCs in jurisdictions where an FIC is not located.

Congressman Mel Watt

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Question 2: How would the Economic Opportunity Centers program involve or be coordinated with the "Step-Up" job-training program?

The development and implementation of a Step-Up program and other training and apprenticeship programs is one of many eligible activities under the Economic Opportunity Centers program. Currently, the Step-Up program has been limited to PHAs. EOCs would provide funds to support sponsorship of the Step-Up program or similar training and apprenticeship initiatives by community development agencies and community-based organizations as well as PHAs. Step-Up is a strategy for implementing Section 3; it is one way in which Section 3 covered recipients can meet their responsibilities under the law.

(4/14/94)

QUESTIONS FROM CONGRESSMAN ROD GRAMS

TO MS. ACHTENBERG

Earlier media reports and calls from constituents highlighted an interpretation by your Department to eliminate religious symbols from Yellow Page ads for nursing homes in order to comply with the Fair Housing Act. If this is true, it appears that HUD would be discriminating directly against religious groups.

The most recent example concerned Good Shephard Lutheran Home in my home state of Minnesota, which used a logo of a shepherd's cross in its Yellow Pages ad. Citing your Department's interpretation, the Yellow Pages had refused to use the cross in advertising. While this situation has been resolved, I am concerned about similar incidents in the future.

- a. As the official voice for fair housing, could you clarify for the record the Department's interpretation of the Fair Housing Act and its relationship to the use of religious symbols in advertising for nursing homes?
- b. What is the rationale of the Fair Housing Act in relationship to religious symbols?
- c. How much of this interpretation is actually subjective, depending on the person making the judgment?
- d. Will HUD be monitoring the Yellow Pages in the future or will you simply be responding to allegations of discrimination?
- e. As a follow-up, we have focused on nursing homes, but are there other types of housing that would also be affected by this interpretation, positively or negatively?

(Responses from Assistant Secretary Achtenberg)

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Response to Question from Congressman Rod Grams

Q. (a) As the official voice for fair housing, could you clarify for the record the Department's interpretation of the Fair Housing Act and its relationship to the use of religious symbols in advertising for nursing homes?

(b) What is the rationale of the Fair Housing Act in relationship to religious symbols?

(c) How much of this interpretation is actually subjective, depending on the person making the judgment?

(d) Will HUD be monitoring the Yellow Pages in the future or will you simply be responding to allegations of discrimination?

(e) As a follow-up, we have focused on nursing homes, but are there other types of housing that would also be affected by this interpretation, positively or negatively?

A. (a) Guidelines issued by the Department in 1972 indicated that reference to religious language or symbols in advertising could connote to a reasonable reader an overt or tacit discriminatory preference or limitation in violation of the Act. Examples in the guidelines as to religion include "Protestant, Christian, Catholic or Jew." Similarly, use of symbols or logotypes which imply or suggest religion could constitute a violation of the Act, according to the guidelines.

One particular company adopted a policy, based on its reading of the guidelines, which prohibited the use of religious symbols in directory advertising. The Department does not believe that the guidelines require such an interpretation.

Several religious-based nursing homes objected to the policy. The company has advised the Department that it subsequently changed its policy to allow use of religious symbols

when advertisers included language such as "all faiths welcome without preference" to indicate to readers that the use of the religious symbol was not intended to express a limitation or preference based on religion. The Department does not object to that change to the company's policy.

The Department has undertaken no new initiatives nor issued any new policy regarding religious advertising.

(b) The Fair Housing Act makes it unlawful to make, print or publish a notice, statement or advertisement that indicates any preference, limitation or discrimination based on religion, as well as based on race, color, national origin, sex, familial status or handicap.

The 1972 Guidelines, which were amended in 1989 only to address discrimination based on familial status or handicap which were added to the Act as prohibited bases for discrimination in 1988, state that use of certain words, symbols, and forms could indicate a possible violation of the Act and establish a need for further proceedings if it is apparent from the context of the usage that discrimination within the meaning of the Act is likely to result.

(c) In most situations, private litigation or individuals

or private groups who have filed complaints with the Department have challenged particular advertisements as indicating a possible violation. Several judicial decisions have found violations through various types of advertising, the most well known of which have successfully challenged the failure of advertisers and publishers to use human models in advertising which reflect racial diversity. If a complaint is filed with the Department which alleges that a particular advertisement or series of advertisements indicate a preference, limitation or discrimination on a protected basis, the Department will conduct an investigation.

We are not aware of any recent cases filed with the Department involving religious discrimination in advertising.

(d) For some years, beginning in the previous administration, my Office of Investigations has investigated several cases involving telephone directory advertising. Most of these cases were based on information received by the Department regarding discriminatory advertising in telephone directories. They are "Secretary-Initiated" complaints, that is, they were signed by the Assistant Secretary for Fair Housing and Equal Opportunity under authority established in the Fair Housing Act and delegated by the Secretary to the Assistant Secretary.

These cases primarily addressed familial status

discrimination and involved advertising such as "adults only" or "no children."

The Department will continue investigating these cases, if the investigation is not complete, and will monitor compliance with the terms of any conciliation agreement which may have been entered into.

However, most of our responsibility in this area relates to responses to individual complaints.

(e) While almost all types of public and private housing are covered by the Act, and thus are covered by its prohibitions, we are not aware of any complaints against nursing homes or any other entity which have been filed with the Department which involve the issues raised by the religious symbol discussion.

April 14, 1994

Rep. Michael N. Castle

HOUSE BANKING SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
HUD'S FY 1995 LEGISLATIVE PROGRAM

Questions for

Roberta Achtenberg, Assistant Secretary for Fair Housing:

MIXED POPULATIONS IN PUBLIC AND ASSISTED HOUSING DESIGNATED FOR
THE ELDERLY:

* Public Housing officials in Delaware have consistently expressed concern over growing problems related to the housing of young people with drug problems or mental disabilities in buildings containing mostly elderly residents. I understand the need for non-discriminatory housing policies, but if these young people are causing disturbances and threatening elderly residents, the local housing authority should have the flexibility to separate the disruptive residents from the elderly.

- Can you explain the new regulations on this issue that HUD published this week? Will local officials have any flexibility to address problems with mixed populations? Can they remove disruptive residents and how cumbersome will this process be?

HIGH PERFORMING PUBLIC HOUSING AUTHORITIES

* The Delaware State Housing Authority is a well-run organization. For the last two years, DSHA has received a 100% rating in performance standards. Unfortunately, there does not appear to be any incentive from HUD for PHAs to perform well. HUD focuses on distressed public housing. What can be done to reward those housing authorities that are doing a good job? Does HUD have any plans to modify its policies in this area?

(Responses from Assistant Secretary Achtenberg)

1

Response to Question from Rep. Michael N. Castle

Q.1. Public housing officials in Delaware have consistently expressed concern over growing problems related to the housing of young people with drug [problems or mental disabilities in buildings containing mostly elderly residents. I understand the need for non-discriminatory housing policies, but if these young people are causing disturbances and threatening elderly residents, the local housing authority should have the flexibility to separate the disruptive residents from the elderly.

Can you explain the new regulations on this issue that HUD published this week? Will local officials have any flexibility to address problems with mixed populations? Can they remove disruptive residents and how cumbersome will this process be?

A.1. The regulation that HUD recently published concerning designated housing allows PHAs to designate buildings or portions of buildings exclusively for the elderly or non-elderly disabled. This cannot be done without following the procedures prescribed by the Congress: developing an allocation plan with public input, securing HUD approval of the plan, and securing approval of a Supportive Services plan in the case of a building designated for persons with disabilities.

The statute on which this regulation is based does not allow eviction of any residents solely because they are non-elderly disabled. This does not preclude a PHA from evicting any tenant who fails to comply with the requirements of his/her lease.

The Occupancy Task Force on Public and Assisted Housing has just filed with Secretary Cisneros and the Congress its recommendations to HUD on a number of subjects, including the

Housing Management Process and Evictions. HUD is required to consider the recommendations and publish additional proposed regulations, where appropriate, within 90 days after receipt of the report, or early July.

Q.2. The Delaware State Housing Authority is a well-run organization. For the last two years DSHA has received a 100% rating in performance standards. Unfortunately, there does not appear to be any incentive from HUD for PHAs to perform well. HUD focuses on distressed public housing. What can be done to reward those housing authorities that are doing a good job? Does HUD have any plans to modify its policies in this area?

[To be answered by A/S Shuldiner]

APPENDIX

April 20, 1994

Opening Statement
Chairman Henry B. Gonzalez
Hearing on Rural Housing and the Role of Nonprofits and Community
Development Corporations in Housing and Community Development
April 20, 1994

Today we welcome witnesses on the front lines of development of rural housing and in the neighborhoods to comment on H.R. 3838 and other legislative initiatives the Subcommittee should consider. As you know, I introduced H.R. 3838, the Housing and Community Development Act of 1994, with 20 members of the Committee as original co-sponsors on February 10. This legislation includes the regular reauthorizations required, technical and clarifying changes, a number of rural housing initiatives, a technical assistance and capacity building program for Indian country, and initiatives that impact upon nonprofits and community development corporations as they continue their integral role in housing and community development.

The bill, for example, reauthorizes the National Community Development Initiative, enacted last year and provides for establishing its counterpart for rural areas within the Farmers Home Administration. It is our understanding that the Administration's 1994 legislative package will include new programs to provide assistance to community based groups in addition to the many programs and setasides that already exist under current law.

While our witnesses on the first panel or the groups that they represent have appeared before us before on the occasion of reauthorization legislation and oversight, the witnesses on the second panel have had less exposure to the Subcommittee. Indeed,

as a result of the rapid growth in numbers and the importance of nonprofits and community based corporations as active partners in housing and community development, it is appropriate that the Subcommittee explore the appropriate role of these entities in the housing system.

I have always said that in order to meet the federal government's responsibility in expanding the supply of affordable housing, revitalizing our nation's neighborhoods and communities, and enhancing the quality of life of our citizens, all must participate, separately or as partners -- public agencies, like housing authorities and city and state governments, private builders and developers, and the nonprofit and community based sector. So we are particularly interested in both panels' ideas and concerns about H.R. 3838.

I look forward to the testimony.

OPENING STATEMENT OF
THE HONORABLE KWEISI MFUME

April 20, 1994

Mr. Chairman, I would like to thank you yet again for your leadership in holding these hearings and for moving this reauthorization bill through the legislative process at such an expeditious rate. I look forward to hearing today from the two distinguished panels you have compiled for us.

Representing, as I do, Baltimore City, I am especially interested in hearing from the second panel on the role of nonprofit organizations in urban and community renewal. Baltimore has had an especially positive experience when working with nonprofit organizations, and I believe that there is much that can be learned from our experience.

It is my hope that the groups before us today will be able to provide us with their insight on how the relationship between nonprofits and community development corporations and the federal government is going. Over the last twenty to thirty years such entities have clearly become primary players in meeting the housing and community development needs of many of this nation's cities. While part of this growth is a result of the withdrawal of the federal government during the 1980's from the community renewal arena, it also stems from the fact that many of these groups are from the communities: they are familiar with the needs and aspirations of the people living in the community, and they are armed with a strong desire to correct the neighborhood's failings.

While it is, as I said earlier, my hope that the groups before us will share with us their personal thoughts and concerns, I would also hope that they would speak in broader terms about the thousands of other groups who provide similar technical assistance to communities on a regional or national level. These groups vary in size and specific mission, but they are all playing an increasingly important role in the redevelopment and renewal of our cities.

I would like to take just a minute to recognize the fact that in addition to the bricks and mortar work that many of these groups are responsible for,

there are also a number of important social and community services for which they can and should take credit. These activities range from advocacy and organizing to promoting health care services and job training.

In short, I look forward to working with the groups before us today as well as all of the others across the nation to ensure that they are allowed to continue their activities. While I understand that some of my colleagues may have questions about the extent to which the federal government should be working with and providing funding for these organizations, I would simply ask that they visit Sandtown-Winchester or any one of the number of other areas that have been helped by nonprofit groups.

Thank you again, Mr. Chairman, for your leadership on this issue.

BERNARD SANDERS
MEMBER OF CONGRESS
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Statement of Rep. Bernard Sanders
Subcommittee on Housing and Community Development
April 20, 1994

Chairman Gonzalez, thank you for holding this important hearing on rural housing initiatives. We are bombarded with information on the plight of the urban poor and homeless. But we cannot forget the large number of rural working poor who aren't as visible, yet desperately need our assistance.

Amidst the disturbing stories of fraud and ineffective administration of urban housing programs, rural areas are developing innovative solutions to their special housing needs. For instance, in Vermont, community land trusts were developed to ensure that property remained perpetually affordable. These land trusts tie public assistance to the land upon which homes are built. Beneficiaries buy the home structure, but neither pay the high cost of the land's value nor realize the increase in its value when they sell their home.

I am not claiming the administration of funds for rural housing is infallible. Under current law, state bureaucracies can spend all of the allowable administrative costs under one of the most pervasive housing programs - the Community Development Block Grants. This often leaves local administrators in rural areas empty-handed. We need to make sure federal funds are reaching the groups - like many of you here - who are developing

and administering novel solutions to the special needs of the rural poor.

One area of development I believe demands the subcommittee's attention is mobile homes. As the cost of rural housing has increased and job opportunities have decreased, many have been forced into mobile homes. In fact, over ten percent of Vermont residents live in mobile homes. Unfortunately, the demand for affordable housing has made trailer parks an area ripe for private sector speculation. Because they are dealing with renters and tenants with little or no bargaining power, owners have raised costs of land use while letting the premises fall in disrepair. The water supply, sewage, roads, and other infrastructure are often substandard or even dangerous. The Safe Drinking Water Act currently before this Congress threatens to close down many of the parks leaving thousands homeless. Renters and tenants want to take over their trailer parks and improve their living conditions. Unfortunately, they do not have the funds to do this. Federal assistance in this area would substantially improve the living conditions and politically empower many Americans held hostage at the bottom rungs of the housing ladder and would protect against the erosion of this unique source of affordable housing.

I am very interested in your thoughts on (1) housing solutions that ensure benefits are realized perpetually, (2) limiting the amount of federal administrative costs state

bureaucracies can use, and (3) funding tenant-based ownership of trailer parks. I also welcome any other suggestions for creative solutions to our significant rural housing problem.



TESTIMONY OF

THE COUNCIL FOR RURAL HOUSING AND DEVELOPMENT

on The Housing and Community Development Act of 1994

before the Housing and Community Development Subcommittee of the Committee on Banking, Finance and Urban Affairs

APRIL 20, 1994

Good morning, Mr. Chairman and members of the Subcommittee. Thank you very much for asking us to appear before you today.

My name is Pamela Borton, and I am President of Southwind Management Services, an affordable housing management company operating out of Clearwater, Florida. I appear before you today in my capacity as the Chairperson of the Council for Rural Housing and Development.

By way of background, the Council for Rural Housing and Development is a national trade association of over 340 members and 21 affiliated state organizations of individuals involved in the management, development, and financing of rural rental housing. Since 1980, we have been representing our members before Congress and federal agencies on matters relating to the construction and management of rural rental housing. Consequently, our testimony today focuses on the rural portion, Title V, of the Housing and Community Development Act of 1994 (H.R. 3838).

Permanent Authorization and Funding Levels

There are many good things in this legislation for which we want to thank you. Most importantly, the provision which establishes the permanent authorization of the Section 515 rural rental housing program is long overdue and appropriate for this program which has accomplished so much for rural America. We have sought permanency for this program also because the lack of it has created serious planning problems for rural developers. When the program expires at the end of a fiscal year before Congress can renew it, as happened on a few occasions, developers often have difficulty meeting their obligations under the low income housing tax credit program. The tax credit is an important component of the Section 515 program as it provides the incentive for the development of such properties. Unfortunately, the requirements of the tax credit program do not always mesh with the requirements of the Section 515 program. The security of the permanent authorization will allow developers to move ahead with quite a bit more confidence that they will be able to coordinate

the two programs and wind up with a successful project.

We appreciate the fact that this committee recognizes the great good that this program does in meeting a tremendous need for housing. The \$794 million authorization level proposed for the Section 515 program is a far more realistic attempt to address this need than is the \$220 million figure proposed in the President's FY95 budget.

Rental Assistance and Vouchers

The provision that establishes a set-aside of rental assistance for new construction is important to the financial stability of newly constructed complexes. Currently, properties which receive the highest priority for funding are those that are located in the most remote rural areas, serving the most low income residents. This makes sense, when trying to allocate a limited resource such as Section 515 loan funds. However, properties located in these areas and serving such households typically require rental assistance. If this RA is not provided where it is needed, we run the risk of creating properties that will never be fully occupied because the eligible residents cannot afford to live there without RA. Section 507 is a safeguard for the future.

We also strongly support Section 509, which prioritizes voucher assistance for Section 515 rental housing that has a significant vacancy problem for extended periods or is occupied by a significant number of families who are rent overburdened. Clearly, such rental housing exists, and the designation of project based vouchers to protect existing properties is a constructive use of federal resources.

Sequential Transfers of Loans

The Section 515 program is streamlined and made more efficient by Section 506 of the bill which authorizes the Secretary to approve sequential transfers of loans where more than one transfer entity is involved, if the transfer is in the best interest of the tenants and the Federal government.

Administrative Appeals

Having pointed out all of the positive aspects of the legislation, we must move on to the one provision of the legislation which we view as a real problem, and that is Section 505, which adds "evictions" to the adverse decisions to which the Section 510(g) appeal procedure can be applied. Also added is the phrase, "on the record after opportunity for an agency hearing."

CRHD believes that an evicted tenant should have the right to an evidentiary hearing to assure that the eviction is with just cause. However, because Farmers Home regulations already require that an

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eviction be for a material lease violation or good cause, an owner would have to prove same in any court eviction proceedings. FmHA regulations currently provide for an informal meeting between management and any tenant who has been served with a lease violation notice in an attempt to resolve the stated violation before the date of corrective action specified in the notice. FmHA regulations also require that the Agency receive a copy of any termination of tenancy notice which affords one more opportunity or safeguard for the tenant in the event that during its review, the Agency determines that the termination is not for just cause, or that the tenant has not received due process. At that point, FmHA may direct that the termination action cease. All termination notices must advise the tenant that they are entitled to present a defense in state court and that they can only be evicted through a court action. Any notice not including this language is deemed to be legally insufficient for the purpose of eviction under current 7 CFR 1930.

Thus, the state courts would offer ample protection to a tenant being evicted. Accordingly, if the intent of this amendment is to provide the tenant with two full hearings, we believe that it is misguided. Certainly, the tenant is protected with one hearing, while the tenant's neighbors could well be adversely affected by the delays of two hearings. Never forget that bad tenants adversely affect their good tenant neighbors.

Let me give you an example, and one which is not necessarily that far fetched. A resident who has been caught dealing drugs is in most cases in material violation of their lease and therefore eligible for immediate eviction. If this individual is not promptly removed from the building, other residents could legitimately fear for the health and safety of their family members and may even move out of the building in order to avoid the impact of the individual. As another example, can you imagine how the neighbors of the resident who never pays his rent feel when they realize that the individual is being allowed to live rent free as the tedious process of an administrative appeal and hearing on the record ensues, while they faithfully make their payments, no matter how much of a financial burden it is for them?

Interestingly enough, the term "on the record after opportunity for an agency hearing" utilized in Section 505 of the bill has technical statutory meaning. The provision is defined in 5, U.S.C. 554, a provision of the Administrative Procedures Act (APA). Significantly, Section 554 (a) (1) excepts from a hearing on the record "a matter subject to a subsequent trial of the law and the facts de novo in a court." In other words, the APA, which is brought into play by your proposed amendment would except situations such as the Farmers Home eviction, where there is a trial de novo for the very sensible reason that an affected party should be permitted only one full hearing.

Accordingly, we would have no difficulty with your proposed amendment if you added the following phrase after the word "agency hearing":

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"pursuant to 5, U.S.C. 554 (b) - (e) and the exceptions
set forth in 5 U.S.C. 544 (a)."

This change will make clear that an affected party is entitled to a hearing on the record when there is no court trial de novo, but would not be entitled to such hearing in the event of a trial de novo.

We are particularly anxious to work with the Committee and staff, Mr. Chairman, to resolve this particular issue and hope that a solution that meets the concerns of all can be reached.

Our general counsel, Charles L. Edson, is accompanying me today to assist me in answering any of your questions. Thank you again for your consideration of our views.

Questions for Ms. Borton from Chairman Gonzalez

1. You have both raised concerns about the administrative grievance hearing for adverse decisions against section 515 tenants as potentially dragging out a process unnecessarily and as an administrative burden. For public housing residents there is a provision for expedited grievance hearings and evictions in certain circumstances such as for those involved in criminal activity. Would that limitation on hearings be acceptable? What if grievance hearings were required only if requested? I would like to work with you to craft a policy that protects due process rights which incidentally state courts for many very low income residents in rural areas may not at the same time as it prevents undue burdens on owners or FmHA.

2. There have been some suggestions that we establish a section 515 guaranteed loan program. I am concerned that such a program will not adequately serve the very low income residents currently served by the direct loan program and that authorizing such a program will detract from the direct loan program which we all agree needs to be protected. Can you comment on this proposal made by Mr. Collings in his testimony.

3. Can you comment on the concerns raised by Mr. Collings about the new construction rental assistance safe harbor? Are there other ways to ensure that sufficient rental assistance is available for new construction?

4. As you point out, H.R. 3838 would establish a refinancing program for section 515 projects, at the convenience of the Federal government. I believe your concerns about budget authority may be a question that needs to be resolved by CBO and OMB about scoring. Refinancing in and of itself without increasing the original loan should not require use of the new loan authority. If we resolve this issue do you believe this authority would be beneficial?



ANSWERS TO QUESTIONS TO MS. BORTON

1. In response to the question regarding administrative grievance hearings for adverse decisions against Section 515 tenants:

Expedited grievance hearings and evictions in certain circumstances such as for those involved in criminal activity as you suggest would not protect the property from the management problems that occur when tenants in violation of their lease are not immediately evicted.

Lease violations need not necessarily be criminal to be justification for immediate eviction. Not evicting a resident in violation of their lease sends a signal to other residents that the lease is meaningless. In addition, other residents could fear for their health and safety, if for example, a resident who does not maintain their unit in a sanitary condition or continuously sets fires is not removed. In addition, as we mentioned during our testimony, it is simply unfair to the residents who struggle to make their rent payments to allow someone who does not do this to continue to live in the unit. If management does not have the ability to deal immediately and effectively with a resident in flagrant violation of their lease, the other residents will begin to feel insecure themselves and the ill will that results could poison the building, creating serious management problems.

Requiring grievance hearings only if requested is not a solution in our view because such hearings would automatically be requested in every case.

To reiterate, we do not believe that an additional hearing is necessary if there are hearings provided in the state court, especially in view of the tenant protections that Farmers Home already has in its regulations.

We remain committed to discussing this issue further with you and the supporters of this provision in order to meet a mutually acceptable solution.

2. In response to the question regarding a Section 515 guaranteed loan program:

CRHD shares your concerns about a Section 515 guaranteed loan program. A straight guaranteed loan program would result in rents that were significantly higher than those that result in the direct loan program. If the traditional Section 515 household is to be served, i.e., the very low income household located in a remote rural area, there would have to be additional rent subsidy in order to meet the rent payments. Thus, the actual cost of the program would be

higher in terms of the necessary rental assistance which would be going to meet the required, higher rents.

In addition, we share your concern that such a program would detract from the direct loan program which must be protected. If a guaranteed loan program is to be considered at all, it should be as a demonstration program, and only if additional funds are appropriated. The existing Section 515 program should not be reduced in order to create this new program.

At this time, CRHD's position is to not support a guaranteed loan program. The CRHD Board of Directors will be revisiting this issue at its meeting in June and will notify you of any new thoughts we might have on this subject following that meeting.

3. In response to the question regarding new construction rental assistance:

We concur in the position that there should be a set-aside of rental assistance to serve the new construction units that need it. So long as the aim of the Section 515 program is to serve the poorest of the rural poor, there will be a need for rental assistance in newly constructed complexes. The residents of these properties are no less in need or deserving than those who are already benefiting from rental assistance. Furthermore, it is in the government's best interest to make sure that any newly constructed property which requires rental assistance have access to it. If not, such properties will be unrentable and financially unviable.

As an alternative, the Committee could consider authorizing rental assistance in an amount to serve a certain percentage of the new construction units that are expected to be built in any one year. For example, providing that rental assistance will be authorized in an amount to accommodate 80% of the new construction units that are created.

4. In response to the question regarding refinancing of Section 515 loans:

Assuming that the budget authority issue could be settled, we believe that refinancing could be beneficial to take advantage of lower interest rates. However, the sooner the better for any refinancing program, as interest rates are starting to rise.

NATIONAL RURAL HOUSING COALITION

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**TESTIMONY OF THE NATIONAL RURAL HOUSING COALITION
ARTHUR M. COLLINGS JR., EXECUTIVE COMMITTEE MEMBER**

BEFORE

**THE SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES**

APRIL 20, 1994

Mr. Chairman, my name is Arthur Collings, Jr. and I am a member of the Executive Committee of the National Rural Housing Coalition. I appreciate the opportunity to comment on the provisions of H.R. 3838, the Housing and Community Development Act of 1994. We are pleased to endorse this important legislation.

The National Rural Housing Coalition is a national coalition of over 200 public and private, non-profit housing and community development organizations that serve rural, low-income areas. We are grateful for the provisions of this act, particularly those of the Title V rural housing programs. This bill offers strong support for housing production, rental assistance, and traditionally underserved areas, and it does so at a time when the Administration proposes to cut back severely in many important rural housing programs. It is the Administration's proposals, and the differences which H.R. 3838 offers, that I would like to address first.

Homeownership. The National Rural Housing Coalition supports maintaining the required payment under the Section 502 single-family home loan program at 20 percent of the borrower's income for principal, interest, taxes and insurance (PITI). We feel that the Administration's proposal to increase this payment to 30 percent for new borrowers will prevent very low-income households from participating in this program and enjoying its benefits. It will also make it virtually impossible for 40 percent of Section 502 funds to go to very low-income households. Instead, the provision of homeownership assistance will be skewed toward moderate-income households many of whom are currently eligible for guaranteed loans under Section 502.

As you know, the majority of federally-assisted rental programs, tenants pay 30 percent of their income for housing. However, they also receive an allowance for utilities, and do not have to pay separate maintenance charges. These costs can equal between 10 and 20 percent of a household's income. Homeowners must pay these costs in addition to their mortgages, taxes,

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April 20, 1994

and insurance. It is a shortcoming of the Administration's proposal that the proposal does not factor these costs into the overall cost of homeownership. With the increase in homeowner's payments, a Section 502 borrower under the Administration's plan would pay up to 50 percent of his or her income each month for housing.

Consider the following:

- Households who have to pay fifty percent of their income for housing are considered "severely cost burdened" under HUD programs. Such households are in danger of defaulting on their loans because of their severe burden high burden.
- The Section 502 program is mandated to set aside 40 percent of its loan funds for very low-income households. Yet very low-income households who are faced with a severe cost burden cannot afford to become homeowners. They do not have the income to both pay 50 percent of it for housing and also pay their non-housing expenses. For example, a household with only \$10,000 in income would have less than \$500 each month after housing costs to pay for all its other needs.

As a result, under the Administration's proposal, only moderate-income households and the better-off low-income households could afford to become homeowners. This runs counter to the program's intent and cruelly denies a whole segment of the country from homeownership. We strongly urge this Subcommittee to oppose the Administration with regard to the Section 502 Program. I would like submit as part of my statement a letter signed by over 100 organizations in opposition to the Administration budget proposals for rural housing.

Rental Housing. The National Rural Housing Coalition also supports H.R. 3838's increase in authorization for the Section 515 rural rental housing program. Section 515 represents one of the federal government's most successful housing production programs. Nearly a half-million rural households benefit from this program. Almost all of them are low-income or very low-income, and over half of them are elderly. Through the 515 program, these households have found decent and affordable housing at a time when the shortage of affordable rental housing units exceeds 600,000 in rural areas. Some 25 percent of all rural renter households still live in poverty, so the need for a program such as Section 515 to create decent, safe and affordable housing cannot be overstated.

Despite this need, the Administration has proposed to slash the funding for the 515 program by 60 percent, reducing production to less than 6,000 units in the coming fiscal year. Under the past decade, under previous administrations, the program has already sustained a 50 percent cut in funding. The Section 515 program has nonetheless financed 14,000 units yearly since its inception. The program has done more to address the housing needs of rural communities than any other comparable program, and it has done so for an average cost of under \$40,000 per unit. There are currently 18,000 rental housing projects with outstanding 515 loans, and a default rate of less than 1.0 percent.

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April 20, 1994

It is short-sighted and senseless to continue cutting the funding for a program like Section 515 which achieves its goals in such a cost-effective manner year after year. We urge this Subcommittee to oppose any efforts to cut the budget for the Section 515 program in fiscal year 1995.

Rental Assistance. The bills proposals regarding the Section 521 rental assistance program contained in H.R. 3838 are very significant since the Administration has made it clear that, given a tough budgetary choice, it cut the 515 program in order to provide funding for the upcoming year's expiring rental assistance contracts and to expand the supply of rental assistance for existing projects. The Administration's argument does not stand up to the fact that the proposed increase for rental assistance is less than \$80 million while the cut to the Section 515 budget exceeds \$320 million.

H.R. 3838 strikes the right balance between new construction and project-based assistance, by offering a measured increase in rental assistance over last year's authorization while meeting the demand for rental housing units themselves. In addition, we support the provision that rental assistance be convertible to operating subsidies for migrant farmworker projects.

We also support that households with vouchers should have the option of using this assistance in Section 515 projects or in unsubsidized rental housing. Nonetheless, the National Rural Housing Coalition does not support vouchers as a strategy to increase the supply of affordable rental housing in rural areas. The fundamental problem of rental housing in rural areas is not that the current supply is not just affordability. Although many households do need rental assistance, the first problem is that the current supply itself is not large enough. In this regard, we strongly support the authorization level proposed by the H.R. 3838 for Section 515.

Other Issues. There are a number of other areas under Title V for which the National Rural Housing Coalition has made legislative proposals, many of which have been written into this title

To highlight our proposals on rental housing:

- Following on my earlier comments, the Coalition thanks the sponsors of H.R. 3838 for permanently authorizing the Section 515 program. We also support, however, the creation of demonstration programs for targeting Section 515 assistance and for developing a Section 515 guarantee. In particular, the targeting demonstration program will provide incentives to developers to provide housing in needy areas that they have traditionally overlooked because of better market conditions elsewhere.
- We support the allowance of refinancing for both Section 515 and 502 units. Furthermore, we support Section 503 of this bill which offers prepayment protection on rent increases to tenants of Section 515 projects. Nonetheless, we also urge the Subcommittee to include in this bill further amendments to Section 502(c) of the Housing Act of 1949, to require FmHA to conduct a physical inspection of prepaid

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April 20, 1994

- projects and to require owners who prepay by exception to report compliance annually to FmHA. It is imperative that FmHA ensure that owners continue to fulfill their obligations to provide decent, safe and sanitary housing to tenants even as they seek to pay off their obligations to the agency.
- NRHC supports the inclusion of grievance procedures for proposed tenant evictions in Section 505 of this bill. A fair grievance and appeal process for evictions will make mediation more accessible to low-income tenants. We caution, however, that this process should not impose unreasonable administrative burdens on either the tenant or on FmHA.
 - Finally, with regard to rental housing, we do not support the bill's language on sequential transfers. This language appears to create the authorization for paper transactions that serve to increase the tax benefits of low-income housing to deal participants, without benefitting the tenants of the low-income housing. We recommend that the Subcommittee drop this provision.

Regarding the Section 502 homeownership program, we applaud the creation of a permanent deferred mortgage program, and we hope to submit to the Subcommittee some technical language for this program. We also support Section 502(a)(2) of this bill, which will assist homeownership efforts in remote rural areas. Last, the Coalition supports Section 512 of this bill, the Rural Housing Loan Delegated Processing Demonstration. This program will allow non-profit agencies to provide homeownership assistance in areas where, because of their experience in the community, they are best suited to counsel borrowers and service their loans.

With regard to non-profit participation, the Coalition supports the inclusion of a "Rural Community Development Initiative" in the bill. Non-profits in rural America need assistance in developing capacity, in pre-development funding and in gaining technical assistance to plan, develop and manage low income housing.

NRHC has been a strong supporter of the non-profit set-aside for Section 515 funds. In the 1992 Housing Act, the Congress made a number of changes to the set-aside to ensure the authority was fully utilized. We are pleased to note that indication are that those changes, implemented last October at the start of the fiscal year, are having an impact and that we expect that most, will make use of the set-aside authority. We appreciate the Chairman's continuing support of this provision.

Finally, we wish to raise a concern about Section 507(b) of H.R. 3838. This provision establishes a minimum of rental assistance for new construction, using a formula based on the use of rental assistance for the three prior years. As the Committee knows, rental assistance renewals are rising and will to continue to do so; the amount needed for contract renewals will soon exceed \$500 million. A provision which requires a minimum for new construction based on prior years usage may force FmHA to divert rental assistance from existing residents of Section 515 projects to new construction projects. This will result in eviction of very low-

Testimony of the National Rural Housing Coalition
April 20, 1994

income tenants and place certain projects in financial jeopardy. We fully support adequate funding for rental assistance -- both for renewals as well as new construction. However, this provision, while admirable in intent, is far too rigid and should not be enacted.

HOME Program I would also like to offer some comments on Title II of H.R. 3838 regarding the HOME program. The changes and improvements made to the HOME program over the years are a sign of Congress' and HUD's commitment to making this program work for states and local communities. Section 206, simplifying the match requirement, is of particular benefit to lower-income rural areas, where public resources are often hard to find. Nonetheless, we are concerned that the changes to the HOME program do not go far enough toward making this program accessible to rural as well as urban areas of the country.

A prime example of this is found in the definition of "fiscal distress". Since rural areas are generally funded through state HOME funds, they must use the state's poverty rate and income level as a measure of fiscal distress. However, the balance of the state's population generally has a higher income than that of the rural population; as a result, the rural area's true fiscal distress is masked by the average income of the state as a whole. Investments in rural areas therefore may not be qualified for the reduction in match that they merit.

In addition, the current HOME regulations allow states to favor urban Community Housing Development Organizations, or CHDOs. States can transfer their unused CHDO set-asides to local PJ. In addition, CHDOs must be in existence for three years before they can receive funding. These rules act as disincentives for states to promote the development of rural CHDOs. HOME should be used as a tool to build capacity in rural areas. While Section 211 of H.R. 3838 authorizes funding for capacity building, we urge the Subcommittee to ensure that these funds are targeted toward rural areas where institutional capacity is weakest to fully utilize the HOME program.

While HOME continues to become more effective in urban areas, there are a number of changes which would make the program more useful in rural parts of the country. Our complete recommendations regarding the HOME program are also attached to this testimony. I would like to draw to the Subcommittee's attention that, while HOME is designed to be flexible and compatible with private financing, not enough attention has been paid to ways of combining HOME with housing programs such as Section 502 or 515. The National Rural Housing Coalition is currently examining this question, and we urge the Subcommittee to search out ways in which HOME can leverage Farmers Home programs to increase their benefit to rural areas. The Subcommittee should also ask HUD to evaluate how well states are funding rural communities and the obstacles to greater participation by rural communities.

We appreciate the opportunity to testify and will be happy to answer any questions you may have.

**Testimony of the National Rural Housing Coalition
April 20, 1994**

April 20, 1994

The Honorable Henry B. Gonzalez, Chairman
Banking, Finance & Urban Affairs Subcommittee
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

We are writing to you as an informal coalition of advocates, builders, local officials, non-profit corporations, state agencies, and others concerned with the quality of life in our nation's small towns and rural areas. We request that you reject the administration's budget proposal for federal rural housing direct loan programs administered by the Farmers Home Administration (FmHA) of the Agriculture Department.

It is not an exaggeration to say that the Fiscal 1995 request will decimate the programs that provide housing for low income rural households. The budget requests cuts spending for rural rental housing and low income homeownership direct loans by more than 50%. These reductions will reduce rural rental housing production to a trickle and make it virtually impossible for low income families to qualify for home ownership assistance.

There continues to be a compelling need for housing assistance for rural America. More than 2 million households still live in substandard housing and there is a growing shortage for affordable rental housing which now exceeds 600,000 units.

In an era of tightening budgets, there may be a rationale for freezing spending on rural housing direct loans at the current rate. However, there is not an obvious reason for such massive reductions for programs that assist economically disadvantaged households in small communities across the country.

For these reasons, we ask that you reject the Fiscal 1995 budget request and set funding for rural housing direct loan programs at a level not less than the current level.

Thank you for your attention to this matter.

Testimony of the National Rural Housing Coalition
April 20, 1994

(signed)

1st State Community Action Agency (DE)
 Alabama State Association of Cooperatives (AL)
 Appoquinimink Development, Inc. (DE)
 Ashtabula County Community Housing Development Organization, Inc. (OH)
 Ashtabula County Community Action Agency (OH)
 Burbank Housing Development Corporation (CA)
 Cabinets & Woodworks Shop (AR)
 California Coalition for Rural Housing (CA)
 Campesinos Unidos, Incorporated (CA)
 Canastota Canal Town Corporation (NY)
 Capital District Community Loan Fund (NY)
 Capital District Community Loan Fund (NY)
 Central Minnesota Housing Partnership (MN)
 Cheppewa-Luce-Mackinac Community Action Agency (MI)
 Chicot Housing Assistance (AR)
 CHISPA, Inc. (CA)
 City of Casa Grande (AZ)
 Clay Mountain Housing, Inc. (WVA)
 Coachella Valley Housing Coalition (CA)
 Coastal Enterprises, Inc. (ME)
 Collins Cabinets (AR)
 Community Developers of Beaufort-Hyde (NC)
 Community Reinvestment Association of North Carolina (NC)
 Community Housing Improvement Program (CA)
 Council for Rural Housing and Development (DC)
 Crow Construction (AR)
 Dan Findley Construction (AR)
 Delaware Chapter of NAHRO (DE)
 Delaware Housing Coalition (DE)
 Delaware Opportunities, Inc. (NY)
 Delaware Housing Coalition (DE)
 Delmarva Rural Ministries, Inc. (DE)
 Dover Super Market (AR)
 Dukes County Regional Housing Authority (MA)
 Duncan Construction (AR)
 Fairbrook Homes, Inc. (OH)
 Federation of So. Co-ops/Land Assistance Fund (AL)
 Florida Council for Rural Housing and Development (FL)
 Franklin County Regional Housing Authority (MA)
 Frontier Housing, Inc. (KY)
 Genesee Valley Rural Preservation Council, Inc. (NY)
 Georgia Housing Coalition (GA)

Testimony of the National Rural Housing Coalition
April 20, 1994

Green County Democrats Newspaper (AL)
 Griffin-Mandella Tenants Organization, Griffin-Mandella Apartments (AL)
 Harvest Homes (IN)
 Hawaii Island Community Development Corporation (HI)
 Homes In Partnership, Inc. (FL)
 Housing Assistance Corporation (NC)
 Housing Assistance Council (DC)
 Kitsap County Consolidated Housing Authority Self Help Housing Program
 Larry Kyte Builders (OH)
 Letchworth Development Corporation (NY)
 Local Initiatives Support Corporation (DC)
 Lower Columbia Community Action Council (WA)
 McCauley Institute (MD)
 Mennonite Housing Rehabilitation Service, Inc. (KS)
 Mercy Housing Sacramento (CA)
 Milford Housing Development Corporation (DE)
 Millsboro Housing for Progress (DE)
 Mississippi Council for Rural Housing and Development (MS)
 Mountain Housing Opportunities, Inc. (NC)
 National American Indian Housing Council (DC)
 National Council of State Housing Agencies (DC)
 National Low Income Housing Coalition (DC)
 National Rural Housing Coalition (DC)
 NCALL Research, Inc. (DE)
 Neighborhood Housing Services of Richland County (WI)
 New York State Rural Housing Coalition (NY)
 North County Housing Foundation (CA)
 North Carolina Low Income Housing Coalition (NC)
 Northwest Housing Development (WA)
 Northern Community Investment Corporation (VT)
 The Office of Rural and Farmworker Housing (WA)
 Opportunities, Inc. (MT)
 Pearl River Valley Opportunity, Inc. (MS)
 People Incorporated (VA)
 People for Better Housing, Inc. (MD)
 Peoples' Self-Help Housing of San Luis Obispo (CA)
 PLAN Housing Development (TN)
 PLBA Housing Development Corporation (AL)
 R. J. Cromheecke Realty, Inc. (WI)
 Raynham Housing Authority (MA)
 Ridout Lumber Company (AR)
 Rural Community Assistance Corporation (CA)
 Rural Development, Inc. (MA)
 Rural Rental Housing Association of Arkansas (AR)

Testimony of the National Rural Housing Coalition
April 20, 1994

Rural Rental Housing Association of Virginia (VA)
 Rural Housing Improvement (MA)
 Rural Opportunities, Inc. (NY)
 Rural Ulster Preservation Company (NY)
 Sanders-Black Tenants Organization, Sanders-Black Apartments (AL)
 Self-Help Enterprises (CA)
 Self-Help Housing of Dodge County, Inc. (WI)
 Self-Help Housing Corporation of Hawaii (HI)
 Self-Help Housing Recipient (AR)
 Shingebiss Associates (NY)
 Shoreup! Inc. (MD)
 Snow Hill Citizens for Decent Housing (MD)
 South Bay Improvement Association (CA)
 South Carolina Council for Rural Housing and Development (SC)
 South County Housing (CA)
 Southern Maryland Union of Black Episcopalians (MD)
 Southwestern Community Services, Keene (NH)
 Ted Hankins Associates (OH)
 Tri-C Development, Inc. (WI)
 Tri-County Community Development Corporation (MD)
 Universal Housing Development Corporation (AR)
 Virginia Water Project (VA)
 W. B. Sales (IN)
 Wendy Hills Tenant Organization, Wendy Hills Subdivision (AL)
 West Alabama Farmers Cooperative (AL)
 Whatcom Self-Help Homes (WA)
 Yuma County Housing Development Corporation (AZ)

Questions for Mr. Collings from Chairman Gonzalez

1. Can you comment further on your support for a section 515 guaranteed loan program demonstration?
2. How do you respond to the criticisms of Mr. Barbolla and Ms. Borton about the requirement for an administrative grievance hearing? Can you comment further?
3. You made additional recommendations pertaining to the preservation program for the section 515 program. Couldn't they be achieved through regulation and underwriting of equity take out loans and through monitoring by the Office of Rural Housing Preservation that FmHA was supposed to establish?
4. When Michael Dunn, the FmHA Administrator, testified before the Subcommittee, he talked about supervised credit and the role of the FmHA. Can you comment on his proposals and FmHA implementation of his proposals?
5. In light of HUD's plan to consolidate the McKinney Act homeless programs, would you support efforts, if any, to transfer the rural homeless grant program authorized in the Housing and Community Development Act of 1992 to FmHA? It is my understanding that HUD has never implemented the authority to date.

(Mr. Collings)

NATIONAL RURAL HOUSING COALITION

601 Pennsylvania Avenue N.W. , Suite 850, Washington, D.C. 20004 • (202)393-5229 • fax (202) 393-3034

May 18, 1994

Representative Henry B. Gonzalez
Chairman, Subcommittee on Housing and
Community Development
B-303 Rayburn House Office Building
Washington, D.C. 20515-6052

Dear Chairman Gonzalez:

This letter is in response to your questions subsequent to my recent testimony on behalf of the National Rural Housing Coalition (NRHC).

1. Can you comment further on your support for a Section 515 guaranteed loan program demonstration?

NRHC favors and supports the Title V direct lending programs. However, the decreases in direct funding levels have caused us to look at alternatives, one of which could be a guaranteed program. A demonstration might enable resolution of which approach, direct or guaranteed, is least costly to the government when all subsidy is considered. As noted in my response to Representative Bereuter, NRHC could only support a program which protects tenant and applicant interests, including the right to appeal. Our experience with the Section 502 guaranteed program is that rights, specifically provided in Title V, are administratively denied, presumably to induce participation by lenders and the secondary market. Consequently NRHC would only support a demonstration that provided specific assurances.

2. How do you respond to the criticisms of Mr. Barbolla and Ms. Borton about the requirement for an administrative grievance hearing? Can you comment further?

Rep. Henry B. Gonzalez
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There is a fundamental difference in the basic positions of NAHB, CRHD and NRHC. They represent developers and owners. While NRHC represents nonprofit developer and owners, our basic mission is to act directly on behalf of tenant interests. There is no doubt that administrative hearings use time and are an inconvenience. NRHC maintains (1) that not all states have adequate court procedures with regard to eviction and due process, and (2) many very low-income tenants (87 percent are in this income group) lack the understanding of their legal rights, and are thus evicted almost summarily. We don't oppose eviction. The health and safety of all tenants and the financial condition of rental projects may require it. We do want eviction included in the tenant protections found in FmHA's tenant grievance and appeal procedure (7 CFR Part 1944 Subpart L). When those regulations were first promulgated, during the Carter years, eviction was included. It was excluded during the early to mid nineteen eighties. The 1944-L procedure is carried out between representatives of owner and tenant and is not dependent on the availability of FmHA staff.

3. You made additional recommendations pertaining to the preservation program for the Section 515 program. Couldn't they be achieved through regulation and underwriting of equity take out loans and through monitoring by the Office of Rural Housing Preservation that FmHA was supposed to establish?

We don't believe optimum preservation can be achieved without amendment. For example, FmHA has already refused, within two prepayment regulation publications, to monitor loans prepaid by exception. Their response to our supplication has been that the tenants can monitor compliance, and can report noncompliance to their State Director, who may pursue some unspecified action. Some amendments are necessitated by legal interpretation of the law, which counters its intent. This is clearly the case with loans in default that have been accelerated. The law also needs clarity with regard to the 1992 amendment which made prepayment provisions for December 21, 1979 to December 14, 1989 loans the same as pre-December 21, 1979 loans. Clarification that the 15 and 20 year restrictions remain in force is not only important, but the lack thereof would be extremely costly in the form of unnecessary incentives. NRHC wants FmHA to implement the preservation office and Administrator Michael Dunn has assured us it will happen. Even that occurrence, which we want badly, will not change regulations which cause FmHA to almost automatically provide 90 percent equity loans, when the law states it must be determined to be the least costly alternative to the government, or automatically use a 20 year restrictive use period when the

Rep. Henry B. Gonzalez
 May 18, 1994
 Page 3

law states not less than a 20 year period. While we concur that micro-management should not be the function of Congress, FmHA has demonstrated that it needs specific guidance where housing preservation is concerned.

4. When Michael Dunn, the FmHA Administrator, testified before the Subcommittee, he talked about supervised credit and the role of the FmHA. Can you comment on this proposals and FmHA implementation of his proposals?

NRHC has historically supported FmHA's supervised credit programs. We support their efforts to keep borrowers in their homes through moratoria, payment rescheduling, etc. NRHC concurs with the use of tools tailored to help owners overcome adversity. This is why we have sought legislation to broaden their authority to reamortize or refinance.

NRHC supports FmHA efforts to escrow taxes and insurance. We have met with Administrator Dunn and received the same assurances provided the committee. We respect Mike Dunn and believe he will, at long last, provide escrow. NRHC proposed the first escrow amendment to Title V in 1974.

Our coalition does not support his comments on the Section 502 and 515 budget proposals. He notes maintaining the current program level for Section 502 while omitting the fact that more than 52 percent of the interest subsidy would be eliminated. The impact of the Administration proposal would be eliminating most very low-income families from the program or seriously burdening them with 40-60 percent shelter costs.

The Section 515 proposal, cutting funding by 59.3 percent, is equally reprehensible but certainly more complex. We agree that it is an expensive program. Unfortunately any program that provides direct housing to the poorest of the poor, within 30 percent of income, must be expensive. Section 515 capital costs per unit are remarkably low. The 1993 average was \$39,392. There are not sufficient numbers of available decent housing units in rural areas, which necessitates continuation of the Section 515 production program. The administration's budget proposal can only increase rural homelessness, a subject eloquently covered by Mr. Dunn.

These two ill-conceived budget proposals are no reflection on Mike Dunn or FmHA. They were developed elsewhere and forced on the agency. It is a sad commentary on reinventing government, which suggests everyone sharing some of the burden, that very low-income families are to receive all of the rural housing pain.

Rep. Henry B. Gonzalez
May 18, 1994
Page 4

5. In light of HUD's plan to consolidate the McKinney Act homeless programs, would you support efforts, if any, to transfers the rural homeless grant program authorized in the Housing and Community Development Act of 1992 to FmHA? It is my understanding that HUD has never implemented the authority to date.

Normally NRHC would support the transfer. We do support the concept, but only in theory. We have to ask where the budget authority will come from. NRHC is already heavily involved in trying to stem proposed losses in the existing programs, and question adding this authority to Title V at this time. The budget cap and Clinton Administration attempts to reduce housing subsidy for deficit reduction purposes doesn't square with transferring a whole new authority from HUD.

Sincerely,

Arthur M. Collings, Jr.

AMC/lr

STATEMENT OF
THE NATIONAL ASSOCIATION OF HOME BUILDERS
before the
SUBCOMMITTEE ON HOUSING AND COMMUNITY
DEVELOPMENT
of the
COMMITTEE ON BANKING, FINANCE AND URBAN
AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
APRIL 20, 1994

STATEMENT OF
THE NATIONAL ASSOCIATION OF HOME BUILDERS
before the
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
of the
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

April 20, 1994

Chairman Gonzalez, Ranking Minority Member Roukema, and Members of the Subcommittee:

On behalf of the National Association of Home Builders' (NAHB) 170,000 member firms. I am pleased to have the opportunity to comment on the rural housing title of the Housing and Community Development Act of 1994 (H.R. 3838). Thank you for permitting us to share our views.

My name is Patrick Barbolla, and I am a rural housing developer from Fort Worth, Texas. I am currently developing a project in Eagle Pass, Texas. I have been developing Farmers Home Administration (FmHA) Section 515 projects for over 10 years.

BACKGROUND

Housing as the Engine of the Economy

Housing is a critical component in the overall health of not only our Nation's economy, but that of rural America. The housing industry has led this Nation out of every recession for the last 50 years and is a significant factor in the current economic recovery. FmHA's rural housing programs not only provide housing to Americans unable to obtain assistance from any other source, but create a significant economic stimulus for rural areas that would not be duplicated in the absence of FmHA.

In fiscal year 1993, the FmHA Section 502 direct loan program produced 13,102 new homes, created 23,046 new jobs, generated \$598.8 million in wages and had a total tax impact on federal, state and local government of \$246.3 million. That same year, the FmHA Section 515 program produced 15,163 units, created 12,525 new jobs, generated \$326 million in wages and provided federal, state and local governments with \$128.4 million in tax revenues.

Economic development must encompass rural America. As it is in the overall economy, a major component of rural economic development is a healthy construction industry. According to USDA's Economic Research Service, nine out of ten rural workers are employed in nonfarm industries. Over half of all farm families have at least one family member employed in a nonfarm activity. Thus, the viability of rural America is dependent upon the capacity of rural areas to attract new industries and to nurture the expansion of industries currently located in rural areas. One study found that the lack of available housing in rural areas was a factor that discouraged businesses from locating in rural areas. Without adequate affordable housing, the potential for rural job growth will remain untapped.

Severe Need for Affordable Rural Housing Programs

Housing conditions in rural areas are generally worse than those in metropolitan areas. Rural areas suffer from a preponderance of substandard housing, a severe shortage in the stock of affordable housing, and a lack of mortgage credit. The quality of rural housing is worse than urban housing. For instance, 22% of rural poor live in substandard units and 10.4% of all occupied rural units are structurally inadequate. Rural housing deficiencies are more likely to cause health and medical problems than urban housing deficiencies. Today, there are over 2.1 million rural households living in substandard housing.

The availability of mortgage credit is a significant problem in rural America. In rural areas, it is difficult for lenders to achieve the economies of scale necessary to maintain a mortgage loan department. The special nature of rural properties and rural home buyers often makes it difficult for them to conform to secondary mortgage market underwriting standards. Without a strong secondary market outlet for loans, fewer banks are willing to originate mortgage loans. Hence, a much larger share of home buyers in rural areas turn to unconventional sources for financing, often resorting to "bullet loans" that must be repaid in full after a short term. This shortage is exacerbated by the fact that there is a lack of federal mortgage insurance in rural areas. The share of mortgage holders in metropolitan areas that have Federal Housing Administration or Veterans Affairs Department financing is twice as great as the share of mortgage holders in nonmetropolitan areas who do.

FmHA assistance is vital to the production of affordable rural housing for low-income rural home buyers and renters. The FmHA Section 502 direct loan and Section 515 rural rental housing loan programs produce nearly 30,000 units per year. The FmHA has been responsible for more than 10 percent of nonmetropolitan single family housing starts and between 33% and 50% of rental housing development for the past several years.

The demand for FmHA housing programs far exceeds the availability. Since 1978, the number of new units assisted by these programs has been slashed by 70 percent. As of November 30, 1993, there were 63,721 single family direct loan applications on hand in FmHA county offices. The FmHA currently has a total dollar volume of \$1.09 billion in Section 515 multifamily loan preapplications, which could finance 1,054 projects. The Congressional Research Service estimates that rural housing demand exceeds production by more than 75,000 units per year.

FmHA is a lender of last resort. In order to participate, FmHA borrowers must document their inability to qualify for conventional loans. In 1991, 4.1 million rural households paid more than 30% of their income for housing. Of those, 1.6 million paid more than 50%. That same year, 18.7 percent of rural households had incomes below the poverty rate, as compared to 12.6 percent of metropolitan households. Without FmHA housing programs, even more rural households would remain highly overburdened.

THE HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1994 (H.R.3838)

TITLE V. -- RURAL HOUSING

The National Association of Home Builders applauds you for your conscientious and thorough development of Title V. We stand assured that, under your guidance, rural housing programs of the Farmers Home Administration will continue to be protected, promoted and thoughtfully developed. While we commend you for the creation of this title, we respectfully offer our views of the following sections:

Section 501. Program Authorizations.

NAHB strongly supports the permanent authorization of the Section 515 rural rental housing loan program. Permanent authorization of this program has been a priority legislative item for NAHB's Rural Housing Council for several years. A permanent authorization would clearly signal the authorizing Subcommittee's recognition of the Section 515 program's vital national importance. This will send a significant message to those desiring to slash funding for the program in Fiscal Year 1995.

We would like to express our appreciation for the authorization levels provided. NAHB acknowledges current fiscal restraints and looks forward to the day when authorization and appropriation levels can meet the existing demand for these much needed programs.

Section 502. Section 502 Homeownership Loans.**Remote Rural Areas.**

NAHB commends the Subcommittee's recognition that the residents of truly remote rural areas are at a distinct disadvantage in obtaining homeownership. In these areas, the sporadic nature of home sales renders normal appraisal methods invalid. Authorizing FmHA to make homeownership loans based upon the property's actual cost, without an appraisal based upon comparable values, will well serve the more remote rural areas of our Nation.

Permanent Deferred Mortgage Program.

NAHB has consistently remained neutral throughout the development of the Section 502 deferred mortgage program and has no opposition to its permanent extension. However, we must seriously question the removal of the program's current cap of 10% of Section 502 direct loan funds. It appears that the rationale for this provision is to ease FmHA's administrative burden. We assert that such a policy decision should instead be made in the context of the best interests of the Rural Housing Insurance Fund and those homebuyers the program is intended to serve.

Reamortization and Refinancing.

We urge a reconsideration of the proposal to prohibit foreclosure of a Section 502 loan under a moratorium even when the borrower lacks repayment ability. While its purpose is laudable, we question its economic viability. If a borrower is no longer able to meet the mortgage obligation then he or she - like every other homeowner - should face the misfortune of foreclosure. Although its terms are lenient, the Section 502 program is still a loan program. Immeasurable damage to the program would occur if FmHA's existing single family loan portfolio began to erode due to massive delinquencies. In such event, FmHA's cost to operate, administer and service its single family housing loans would increase significantly. The program has ranked well in comparison to other mortgage programs and it is NAHB's concern that this provision could serve to undo that success.

Section 503. Prepayment of Rural Rental Housing Loans.**Technical Assistance Grants for Non-Profit and Public Agency Purchasers of Prepayment Properties.**

NAHB recommends that technical grants to non-profit and public entity purchasers of prepayment properties be restricted to those cases where the technical assistance is essential to the acquisition, and that the funds are not otherwise available through cash on hand, the sale proceeds of Low-Income Housing Tax Credits on the acquired property, or a subsequent loan

from FmHA. In this time of conflicting budgetary priorities, grant funds should be preserved only for those situations of dire need.

Phase-in of Rent Increases.

NAHB questions the advisability of the provision that prohibits owners of projects receiving Section 8 assistance and receiving incentives under the preservation program from increasing rents (other than those necessary for operating costs) other than in phases equally over three years if the increase is 30% or more. In addition, the provision limits the increase to not more than 10% per year if the approved increase is more than 10%, but less than 30%. Since Section 502 (c)(4)(B)(vi) only applies to those Section 515 projects receiving Section 8 assistance, any rent increase will have no effect upon the amount actually paid by a low income resident. If, in order to preserve a project from prepayment, FmHA agrees that the owner shall receive an increase in its yearly return on investment, then the owner should not have to wait 3 years prior to receiving the benefit of the agreement. To do so would lower the return to the owner that was agreed upon by the owner and FmHA.

Treatment of Acceleration upon Default.

NAHB agrees that loans that are accelerated upon default should be subject to existing prepayment restrictions. A borrower in default should not have greater rights than a borrower who complies with the terms and conditions of the loan.

Test for Allowable Prepayment.

For consistency, NAHB has no opposition to amending the prepayment test applicable to FmHA Section 515 and Section 514 projects to more closely align it with the test used under the Low-Income Housing Preservation and Resident Homeownership Act of 1990.

Section 505. Administrative Appeals.

NAHB strongly opposes the proposal to require a FmHA hearing on the record prior to the institution of eviction actions. The proposal does not increase any meaningful protection to the tenant while it could severely and adversely affect other tenants, FmHA, the project owner, and those excluded from the project as a result of the delay inherent in FmHA hearings. The current procedures are effective in protecting tenants from wrongful eviction.

Tenant evictions in FmHA assisted housing occur only for a material lease violation or for good cause (as defined in FmHA Instruction 1930-C, Exhibit B, Section XIV.A.). In addition, the tenant must receive prior written notice that the tenant's actions or inactions, if not remedied, shall constitute grounds for eviction. If the tenant is dissatisfied with the proposed lease termination, the eviction may only be accomplished by judicial action. Before initiating the eviction proceeding, however, the landlord must provide the tenant with another written notice stating the lease violation or the reason for lease termination and informing the tenant that eviction is being sought through judicial action. The notice also includes the location and office hours where the tenant or counsel may view the file and copy any information it contains to aid in the tenant's defense. At the eviction proceeding, the tenant has the opportunity to present his or her arguments against the eviction and any other information or defenses to a person, i.e., the judge, who has the authority to effectively reverse the eviction by preventing it. Thus, tenants are given, first, written notice of the adverse decision and, second, an opportunity to present additional information to a person, other than the original decisionmaker, with the authority to reverse the decision.

An administrative appeal would require FmHA officials to become involved in the merits of each eviction from a Section 515 or Section 514 project. This might be appropriate if state judicial officials have not fairly and impartially administered the law. However, empirical data to support this is absent and the involvement of FmHA officials therefore would tax severely limited governmental resources. With the pending reorganization and downsizing of FmHA and the resulting closure of offices, the involvement of an Agency hearing on the record prior to all evictions will be difficult, if not impossible, to administer.

NAHB's owners and managers of FmHA assisted housing are committed to preserving privately-owned subsidized housing. We believe it is our obligation to be good stewards of our housing assets and promote, to the best of our ability, a high quality of life for our residents. Considering the increasing scarcity of affordable housing for low and very-low income Americans, owners of assisted housing are concerned with ensuring that such housing is accessible to all who need it. However, we firmly believe that those who live in our properties should abide by the lease and recognize the fact that the right to live in our properties comes with responsibilities. This is especially crucial because there are thousands of families on Section 515 waiting lists that may never have the opportunity to live in a decent, affordable housing unit. The tenant who fails to pay rent for several months pending lengthy appeal hearings prior to eviction not only increases the cost for the other residents but wrongfully deprives the next person on the waiting list of a unit. The tenant dealing drugs, or committing assaults on the complex, or engaging in other unacceptable activities is possibly endangering every other resident of the complex. There is no purpose, other than a potentially dangerous delay, to be served by interposing an additional layer of review prior to the review by state courts. We welcome the opportunity to work with the Subcommittee to ensure that all rights are protected, and respectfully offer our services.

Section 506. Section 515 Rural Rental Housing.**Set-Aside for Non-Profit Entities.**

We respectfully recommend that Congress mandate a study to review the actual cost of producing housing based upon the non-profit set-aside. It is our belief that the goal of Title V should be to provide housing at the lowest cost, regardless of who is the sponsor. Absent compelling governmental reasons, the non-profit set-aside should not be extended. All Section 515 housing funds in any given state should be available to those best able to produce affordable rental housing in a quality conscious and cost effective manner.

Authority for Streamlined Refinancing.

NAHB concurs that there is a need to develop a means of refinancing Section 515 loans in order to reduce rents, debt service and rental assistance. However, such refinancing should only be allowed if it will not reduce funding for new construction. With limited government monies and such a great need for additional affordable housing units, the creation of new housing should be the priority. If, and only if, a refinancing mechanism that would not use current funding could be developed, NAHB would support such a proposal.

Section 507. Rental Assistance Payments.**Set-Aside for New Construction.**

NAHB strongly supports the reinstitution of the Section 521 rental assistance set-aside for new construction and offers our appreciation to the Subcommittee for this much needed action. At this time, NAHB is still studying the proposed allocation formula. Our goal is to make certain that sufficient rental assistance is available to new construction to allow builders to meaningfully serve the rural areas having the greatest need. We look forward to contributing our findings to your Subcommittee staff in the near future, and respectfully request that those findings be included in the record of this hearing.

Section 508. Rural Housing Assistance Targeting Report.

NAHB supports this provision requiring that the Agriculture Secretary submit an annual report to Congress describing the geographical distribution and loan and grant amounts of housing approved, and the extent of the rural character of the areas in which loans and grants are made.

Section 509. Priority for Rural Housing Voucher Assistance.

NAHB supports the proposal that priority for voucher assistance be given to FmHA rural rental housing projects that have significant, long-term vacancy problems or a significant number of rent overburdened tenants. NAHB believes that vouchers cannot serve as a substitute for new production and, more importantly, cannot be successful in environments without vacant adequate rental housing. While a voucher program may provide an additional tool to meet the housing needs of some rural residents, NAHB urges the Subcommittee to reject any attempt to shift the emphasis from new rural housing development to the use of vouchers.

EFFECTS OF ADMINISTRATION'S PROPOSED FISCAL YEAR 1995 BUDGET

The Administration's proposed fiscal year 1995 budget for the Department of Agriculture seeks severe reductions in funding for rural housing programs. The FmHA Section 515 rural rental housing loans program has been slated for a 59% reduction from the fiscal year 1994 appropriated level of \$540.1 million to \$220 million. While the Section 502 direct loan program is recommended for a freeze at the fiscal year 1994 appropriated level of \$1.75 billion, the basis for interest subsidy would be altered significantly.

NAHB strongly opposes the Administration's proposal to cut the loan volume for the FmHA Section 515 rural rental housing loans program by 59 percent. The Section 515 program is the only program adding to the stock of affordable rental housing in rural areas. Annual unit production has already been reduced from approximately 35,500 in 1978 to 15,000 in fiscal year 1994. If the Administration's proposed cut were to become law, annual unit production would be only 6,000. At such a low level, the gap between the need for affordable rental housing and the availability would become even wider.

NAHB must seriously question the Administration's proposal to raise from 20 to 30 percent the minimum required contribution that FmHA Section 502 direct loan borrowers must make to principal, interest, tax and insurance payments.

This change could:

- prevent many potential borrowers from utilizing the program by making it economically infeasible for them to participate;
- cause program usage to drop, especially among those that qualify for the 40 percent very-low-income set-aside;
- increase default rates as borrowers are left with a much smaller income cushion against changes in income and non-housing expenses.

The Administration's proposed fiscal year 1995 budget justifies this policy choice as a need to "conform the amount required to be contributed by the borrower with other Federal Housing standards...". This reasoning is faulty. The 30 percent standard applies to HUD rental assistance programs that subsidize the difference between a renter household's income and their rent plus utilities. The 20 percent standard applies to the difference between 20 percent of a borrower's income and principal, interest, tax and insurance payments only. Unlike HUD rental assistance recipients, Section 502 direct loan borrowers must pay for their own utilities and maintenance.

NAHB has shown a strong commitment to the Section 502 guaranteed loan program since its inception, and applauds the Administration's proposed increase in funding. However, the single family direct loan, single family guaranteed loan, and multi-family rental loan programs serve separate and distinct populations.

Affordable rural rental housing and homeownership opportunities for low-income rural Americans are a priority for the nation that is not met through any programs other than those of the Farmers Home Administration. NAHB supports much needed deficit reduction measures. However, we oppose any cuts to rural housing programs beyond those proportionate to cuts that must be made across the entire federal discretionary spending budget to stay within the fiscal year 1995 cap and to meet deficit reduction goals.

REORGANIZATION OF THE DEPARTMENT OF AGRICULTURE

The National Association of Home Builders applauds Agriculture Secretary Espy's much needed efforts to streamline and consolidate the agencies of the Department of Agriculture. Such efforts are not only imperative to the reduction of the federal budget deficit, but are necessary to provide a higher level of efficiency and service to the American taxpayer.

NAHB is gratified that the Administration has asserted that "A core mission of the Department is to promote economic and community development in rural communities". The availability of affordable housing is an absolute prerequisite to rural economic development and growth.

Without an adequate delivery system, today's well functioning rural housing programs would be rendered helpless. For instance, the cornerstone of FmHA's Section 502 single family direct loan program has been the localized access provided by the county field office structure. While some of these offices should be closed or consolidated due to lack of activity or close proximity to other offices, we urge that field office closings be performed after careful deliberation by this Subcommittee, the Administration, and the industry.

CONCLUSION

The National Association of Home Builders is committed to the preservation of subsidized housing programs which serve our nation's rural poor. We greatly appreciate your consideration of our views. We thank you for your strong and consistent support for Farmers Home Administration rural housing programs, and look forward to continuing to work with this Subcommittee in the production of decent, safe and affordable housing.

Questions for Mr. Barbolla from Chairman Gonzalez

1. You have both raised concerns about the administrative grievance hearing for adverse decisions against section 515 tenants as potentially dragging out a process unnecessarily and as an administrative burden. For public housing residents there is a provision for expedited grievance hearings and evictions in certain circumstances such as for those involved in criminal activity. Would that limitation on hearings be acceptable? What if grievance hearings were required only if requested? I would like to work with you to craft a policy that protects due process rights which incidentally state courts for many very low income residents in rural areas may not at the same time as it prevents undue burdens on owners or FmHA.
2. There have been some suggestions that we establish a section 515 guaranteed loan program. I am concerned that such a program will not adequately serve the very low income residents currently served by the direct loan program and that authorizing such a program will detract from the direct loan program which we all agree needs to be protected. Can you comment on this proposal made by Mr. Collings in his testimony.
3. Can you comment on the concerns raised by Mr. Collings about the new construction rental assistance safe harbor? Are there other ways to ensure that sufficient rental assistance is available for new construction?
4. As you point out, H.R. 3838 would establish a refinancing program for section 515 projects, at the convenience of the Federal government. I believe your concerns about budget authority may be a question that needs to be resolved by CBO and OMB about scoring. Refinancing in and of itself without increasing the original loan should not require use of the new loan authority. If we resolve this issue do you believe this authority would be beneficial?
5. While I understand that you are a section 515 developer in my home state, I would like to ask you a question about the section 502 program usage in Texas. Every year when I review the accomplishments of the FmHA state office as to fund usage, I am dismayed by the amount of section 502 direct loan funds that are returned to Washington. Do you have any idea why that is the case?

RESPECTFULLY SUBMITTED BY PATRICK BARBOLLA, OF FORT WORTH, TEXAS, TO
CHAIRMAN HENRY GONZALEZ

RESPONSES TO QUESTIONS REGARDING FARMERS HOME ADMINISTRATION RURAL
HOUSING PROGRAMS

1. Administrative Appeals

I very much appreciate your willingness to craft an administrative appeals policy that protects due process rights and prevents undue burdens on owners or the Farmers Home Administration (FmHA).

The requirement of an administrative hearing for adverse actions should always be conditioned upon the tenant requesting, in writing, a hearing within three to five days of the tenant's notice of the landlord's proposed action.

Public housing authority (PHA) tenants are allowed to have an informal administrative hearing prior to termination of program benefits with the exception of evictions involving criminal activities threatening the health, safety, or the right of quiet enjoyment by other tenants or PHA employees, or for any drug related criminal activity on or near the apartments. In these cases, the PHA is allowed to establish expedited grievance procedures. More importantly, the PHA may also exclude such matters from even the expedited grievance procedure in any jurisdiction which requires court hearings providing elements of due process (as determined by HUD) before eviction.

In my opinion the PHA model would not be appropriate for Section 515 projects. First, the expansive PHA grievance model has never before been applied to programs similar to the Section 515 program. For example, for apartments developed under the Section 8 New

Construction program, there is no requirement for a grievance hearing prior to eviction, 24 C.F.R. §880.607. The inapplicability of the PHA model to Section 515 projects is also demonstrated by the financial effects of a non-payment of rent action. In the PHA area, HUD, through Section 8, will continue to pay the tenant's rent as long as the tenant remains in the unit. In the Section 515 area, the failure to pay rent causes a direct financial loss to the complex. Any expansion of grievance hearings in the Section 515 area should exclude evictions for non-payment of rent or other charges due the complex as well as matters currently excluded from a hearing for public housing authorities.

However, I continue to have serious concerns with the expansion of administrative hearings to include eviction actions. Tenants' rights are more than adequately protected by judicial hearings in state courts, especially when coupled with the recent revisions to FmHA regulations increasing the ability of the tenants to correct the existing problems as well as increasing the opportunity to informally meet with the landlord prior to adverse action being taken. An additional layer of hearings would not be in the best interests of the government, the owner, or the other residents of the Section 515 apartment community.

2. FmHA Section 515 Loan Guarantee Program

In the multifamily area, the utmost priority should be the preservation, and eventual expansion, of funding for the FmHA Section 515 direct loan program. Future funding of any potential loan guarantee program should not be permitted if it is at the expense of the Section 515 direct loan program. NAHB, however, does support the study of cost effective financing techniques to increase housing opportunities for all Americans. I do not believe that a rural

multifamily loan guarantee program, if authorized, would necessarily detract from the Section 515 direct loan program. Based on the single family experience, it is possible for a loan guarantee and direct lending program to be compatible and complementary since each has a different intended beneficiary.

3. Set-Aside of Rental Assistance for New Construction.

Like Mr. Collings, I also agree that there is an internal inconsistency with the Administration's perceived justification that the Fiscal Year 1995 budget proposal to decrease FmHA Section 515 funding by \$320 million is balanced by the proposal to increase rental assistance by \$80 million. Possibly the only other method to assure that sufficient rental assistance is available for new construction would be to compute the total number of units to be constructed and allocate sufficient rental assistance to provide a 90% coverage.

4. Refinancing

Refinancing could be beneficial to certain Section 515 borrowers. However, I would respectfully suggest that refinancing not be mandatory and should impose no greater obligations and/or restrictions on the borrower than those originally agreed to at the time of loan closing.

5. Non-utilization of Texas Section 502 funds.

In the past, Texas has not fully utilized its annual allocation of Farmers Home Administration Section 502 single family direct loan funds. Discussions with various individuals closely associated with the operation of this program conclude that the lack of utilization may be

the result of a combination of four major factors. First, FmHA emphasis is often placed on farm programs, such as the farm debt restructuring and foreclosure programs. Second, the previous State policy asserted that if a particular community had even one single family house in inventory, then that community was ineligible for new construction until such time as the inventoried house was sold. Third, due to economic conditions largely influenced by the Savings and Loan debacle, the appraisals for new construction were generally lower than the cost of construction. This often precluded any new construction. Fourth, Texas FmHA County offices did not include the closing of Section 502 direct loans as a performance goal. In the past, there were performance goals only in other areas, such as delinquency reductions. With the recent institution of performance goals which include the closing of Section 502 loans, it appears that Texas will substantially increase the utilization of funds this year.

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National American Indian Housing Council

House of Representatives
Subcommittee on Housing and Community Development

Housing and Community Development Act of 1994
(H.R. 3838)

Testimony
Ruth A. Jaure, Executive Director

April 20, 1994

Chairman Gonzalez and members of this Subcommittee, my name is Ruth Jaure and I am the Executive Director of the National American Indian Housing Council (NAIHC). I want to thank you for the opportunity to testify before you on the Housing and Community Development Act of 1994 (H.R. 3838). This act is of critical importance to Indian housing authorities (IHAs) and we are pleased that our concerns will be considered by this subcommittee.

NAIHC is a non-profit association of 187 IHAs that serve over 450 American Indian tribes and Alaska Native villages. IHAs are formed under tribal or state law to provide housing assistance with funds from the Department of Housing and Urban Development (HUD). Since 1961, IHAs have built approximately 80,000 units.

Last week, NAIHC celebrated its 20th annual convention - a monumental achievement for our organization. During that convention, we elected a new chairperson, Ms. Jacqueline Johnson. Ms. Johnson is Executive Director of a housing authority in Alaska, the Tlingit-Haida Housing Authority, and is well-known to this subcommittee as she has been a strong advocate for Indian housing for several years. Among her many accomplishments was to serve on the American Indian, Alaska Native and Native Hawaiian Housing Commission which completed a report for Congress last September. Ms. Johnson is the ideal person to lead NAIHC in these challenging times and will serve our organization well. She regrets that she cannot be here today but commitments prior to her election require her presence today.

NAIHC is pleased that the Subcommittee has recognized the acute need in Indian Country for new housing and has authorized more than \$276 million in 1995 with a 3% increase for 1996. While this authorization is a 5% increase over this year's appropriation, it is still much less than is needed. IHAs continue to have long

waiting lists that can number as many as 1,287 families such as in the Oglala Sioux IHA in Pine Ridge, South Dakota. In comparison to large public housing authorities this number may seem small. But, IHAs are the main housing providers in Indian Country and since no significant alternatives exist, the IHA's housing program is the only way most Native Americans can have a home. In this case, 1,287 represents 10%¹ of the Oglala Sioux population on the Oglala Sioux Indian Reservation. In the District of Columbia, the waiting list of the D.C. Public Housing Authority, which is among the nation's longest, is less than 2% of the population.² NAIHC supports legislation that increases funding for IHAs and requests that the authorization levels be increased to allow for 3,200 units in 1995 and 3,400 in 1996.

NAIHC appreciates that you have not accepted HUD's proposed budget cuts for FY95 for the modernization program. The public and Indian housing stock must be kept in sound condition if we are to fulfill our obligations of providing safe, decent and sanitary housing to the American people. The Indian housing modernization program is desperately needed and used by all IHAs that have aging housing stock. We endorse the \$3.327 billion you have requested for FY95 but request that this be increased to \$3.5 billion as the need for modernization funds continues to be so great.

We also appreciate that you have recognized that HUD's budget request for operating subsidy for FY95 is appallingly inadequate. Your authorization for \$2.75 billion for FY95 acknowledges that public and Indian housing authorities must have funds in order to properly serve their tenants. NAIHC requests that the operating subsidy be authorized at \$3.1 billion so PHAs and IHAs can operate at a level that will adequately assist tenants.

Section 111 - We support the rent reform provision proposed in Section 111 which is long overdue. Rent relief is desperately needed by Native American families who are fortunate enough to live in an IHA rental unit. While they may be fortunate to live in such a home, they are unfortunate enough to be forced to pay 30% of their monthly adjusted income toward its rent. Throughout Indian Country, I constantly hear about the burden that the 30% Rule places on our people. As they struggle to lift themselves out of poverty, they are held down by a monthly rental payment that often takes food from their tables or clothing from their backs. Section

¹According to 1991 Census taken by the Bureau of Indian Affairs, Enrollment Office, Oglala Sioux Reservation, Pine Ridge, South Dakota.

²Kovaleski, Serge F. "Hard Housing Lessons From the Deep South". Washington Post article stated waiting list 11,300 families. April 17, 1994, p.B1; Bureau of Census, 1990 District of Columbia - population - 606,900.

111 is a step in the right direction but it does not go far enough.

HUD's Office of Native American Programs estimates that IHAs manage 26,000 rental units. If IHAs were allowed to charge 20% of a tenant's monthly adjusted income, it would cost less than \$15.5 million in additional operating subsidy. This amount is insignificant in comparison to the great relief it would bring 26,000 Native American families.

We request that Section 111 also clarify the term "unemployment" to give HUD guidelines as to its interpretation. In some areas of Indian Country, particularly Alaska, families earn all their income in a few weeks once a year; the rest of the year, they are unemployed or work randomly throughout the year. The legislation is unclear if this would be considered "employed" or "unemployed".

NAIHC also requests that this section include language that gives a deadline to HUD to implement the 10% deductions of earned income of the family. This legislation was passed by Congress in the National Affordable Housing Act of 1990. HUD continues to delay in implementing these deductions claiming tight budget constraints. NAIHC believes that these deductions should be a priority for HUD as part of its responsibilities to existing programs instead of putting funds into new initiatives which it has done with this year's appropriations request.

We also request that IHAs be given the increased deduction for dependents from \$480 to \$550. This provision was made applicable to Indian housing in the Housing and Community Development Act of 1992. The cost to implement this deduction for IHAs is \$1.05 million under the current 30% monthly adjusted income calculations³. Since this amount is so minimal, NAIHC requests that HUD reprogram its current budget request to meet this need.

Section 112 - NAIHC supports Section 112 on ceiling rents which amends the United States Housing Act of 1937. We request, however, that language be inserted which will allow IHAs to set their own ceiling rents based on local tribal housing conditions. In most cases, Indian reservations and Native American communities have suppressed economies that do not reflect those conditions of the local surrounding non-Indian communities. We need to be able to set rent ceilings based on our own economies so that renters will pay the true rental value for their homes. We also encourage the Subcommittee to set a time frame for implementation of this provision to assure that HUD will implement this much needed relief as soon as possible.

³Figures provided by HUD's Office of Native American Programs, November 23, 1993.

Section 122 - While we support Section 122 which applies public housing provisions to Indian housing except when otherwise excluded, we ask for your assistance in helping us assure that legislation is carefully scrutinized. We have worked hard to be separated from public housing because so many of their provisions do not work in our rural reservation or Alaska village settings. The 1988 Indian Housing Act gave us distinction from public housing authority programs. We have valued this separation but now acknowledge that some public housing programs will benefit our people and they should have access to such programs. This provision will automatically extend programs to us but we need assistance in monitoring when legislation may not always be beneficial or applicable to Indian housing.

Section 161 - The Community Partnership Against Crime (COMPAC) is a program that NAIHC supports but we have concerns. We agree that the Drug Elimination program should be changed to include all forms of substance abuse and not just limited to drug abuse. Ninety four percent of the IHAs, however, will fall into the pool of public and Indian housing authorities that must compete for funds based on crime statistics. Most Indian reservations and Alaskan villages do not gather this information in a consistent, accurate manner. In addition, in some areas, particularly in Alaskan villages, crime statistics are not even gathered. On most reservations, there are three entities that provide policing - the tribal police, the Federal Bureau of Investigation, and the Bureau of Indian Affairs police. All three gather data in different ways, at different times or not at all.

For example, on the Navajo reservation, there are seven district tribal policing units. The BIA has oversight of the tribal police program since it provides funds to them under Section 638 of the Indian Self-determination Act of 1968. The FBI answers calls when the crime is a felony such as a murder. The Navajo reservation is the largest Indian reservation in the United States and spans into 3 states - Arizona, New Mexico and Utah. Within this reservation, is the Hopi reservation which also has the same three policing entities but which gather their own statistics.

NAIHC requests that language be inserted to allow IHAs to receive funding based on programmatic goals, objectives and creativity that will best address their substance abuse problems. This can best be accomplished by a 10% set-aside where IHAs apply for funds and demonstrate why they need the funding and what they will do to lessen such abuse. A program targeted toward substance abuse for IHAs is desperately needed and will improve the entire Native American community. IHAs must be able to have fair access to COMPAC funding or we will continue to see progress in our communities thwarted by the substance abuse that has afflicted our communities for so long.

Section 510 - We are pleased that the bill includes a provision that will help Native Americans access Farmers Home Administration (FmHA) funding in the Native American Rural Housing Capacity Demonstration program. It is not stated, however, how much is being authorized. We also request that the language be changed to allow greater flexibility for "technical assistance providers" (Sec. 538 (f)(1)). Restricting providers to revolving loan experience can eliminate Native American organizations that have FmHA technical capabilities, manage millions of dollars in federal housing programs but lack revolving loan fund experience. Thanks to a new administration at FmHA and a greater effort to reach out to Native Americans, we are beginning to see a rise in Indian Country of FmHA technical knowledge and experience. There are a growing number of us with knowledge of FmHA programs and how they work in Indian Country. NAIHC believes that requiring revolving loan experience is unnecessarily restrictive. While revolving loan experience may be useful, it is not critical to providing technical assistance on how FmHA housing programs work.

We also recommend that language be inserted to require that "technical assistance providers" have extensive experience in working with tribal governments or Indian housing authorities. Only in this way, will they have the cultural sensitivity and awareness that is critical to providing the correct kind of technical assistance to make this program succeed.

Section 710 - This section authorizes NAIHC to receive funding for technical assistance and training for IHAs. For the past two years, we have received such funding and are pleased to report that the technical assistance program is very successful. In the past two years, we have assisted over 47 IHAs with one-on-one technical assistance. We have three full-time staff members who work on the program, each of which has extensive IHA management experience and is highly qualified. We also use a number of reputable consultants who help meet the demand for assistance. Most of the assistance that we provide is geared toward management improvements. IHAs need help in understanding HUD's regulations and how they work in their own tribal environments.

The technical assistance program continually confirms that IHAs lack well-trained personnel. Part of the funding is used to train IHAs in a variety of ways such as revising certification courses, creating new courses or training in existing courses. Under this program, we have revised three certification courses, developed a modernization training program, and expanded our Board of Commissioner and Mutual Help training programs. NAIHC constantly examines its training program to assure that our courses are the best that we can deliver. Together technical assistance and training are helping IHAs meet their management demands.

This funding is also used to produce a quarterly newsletter called "Pathway News". Pathway News has been published for over a year and

has grown to be a high-quality, credible publication that takes news about Indian housing to Indian Country, various federal agencies, Congress and private foundations. It is a publication of which I am extremely proud and which has made a profound impact in educating the public about Indian housing.

While these programs are vital to the IHAs, NAIHC has come to realize that something is missing. We often lack an understanding of why Native Americans access some federal housing programs and not others; why parts of our population remain unserved or even unidentified such as our homeless; why some housing authorities succeed while others struggle or why some HUD regulations work better than others. NAIHC requests that language be inserted to allow us to use a portion of the funding for research; to gather information that will help us and others understand ourselves so that we can move forward with knowledge. We believe that having a better understanding of our own conditions will help us work toward a goal that we as a people are striving so hard to attain - that of self-determination.

Mr. Chairman, I want to thank you for this opportunity to come before you today and to work with you to improve housing conditions for the thousands of Native Americans I am representing today.

Questions for Ruth Jaure from Chairman Gonzalez

1. In your testimony you talk rent reform including ceiling rents and income disallowance and the exclusions from income that have yet to be implemented. It is my understanding that if the exclusions and deductions enacted in the 1990 legislation pertained only to public housing and Indian housing, then appropriations would not be necessary. So we will certainly clarify that. Should the income exclusion be expanded for employed public and Indian housing residents?

2. I want to thank you for your suggestions about the capacity building and technical assistance initiative in Indian country. There have also been suggestions that a Native American Financing Authority be established. Can you comment on this proposal?

3. Do you see a demand for housing finance other than the mutual help program such as the yet to be implemented Indian housing loan guarantee program?

4. Do you have any recommendations for streamlining the conventional Indian public housing program?

Responses from Ms. Ruth Jaure

Question #1: Should the income exclusion be expanded for employed public and Indian housing residents?

Yes all residents should be eligible for this exclusion.

Question #2: Can NAIHC comment on the Native American Finance Authority?

In Tulsa, Oklahoma in April, 1993, the NAIHC membership passed Resolution 93-05 in support of the Native American Finance Authority (NAFA). We believe this entity would bring many needed resources to Indian Country that will build homes for our people while acting as a intermediary financing institution. NAFA's major functions would include originating loans, buying and selling loans, issuing tax-exempt bonds and other financing products and providing the technical assistance that is needed in developing housing programs for Native people.

NAIHC believes that NAFA would provide a comprehensive solution to the lack of private and public financing in Indian Country and to Native Americans living in urban areas. We encourage the Subcommittee to support NAFA legislation when it is presented to Congress as NAIHC believes NAFA is the long term solution to the housing crisis in Indian Country.

Question #3: Do you see a demand for housing finance other than the mutual help program such as the yet to be implemented Indian housing loan guarantee program?

Yes. This is why we are strong proponents of NAFA. We believe that the Indian Housing Loan Guarantee program will address a critical need but that a great need for housing will go unmet. In 1993, the Indian Housing Loan Guarantee program was authorized at \$25 million with \$2 million in guarantee authority. This will build approximately 278 units at \$90,000 per unit. As stated in NAIHC's testimony, in 1990 the Bureau of Indian Affairs Consolidated Indian Housing Needs Survey found that approximately 90,000 units were needed in Indian Country.

If this need is to be addressed, alternative housing finance opportunities must be developed. NAIHC believes that an intermediary finance entity, such as NAFA, will complement the Indian Housing Loan Guarantee program by buying the loans from lenders and selling them on the secondary market. Lenders will then be able to continue to make loans for housing. In this way, many more homes can be built. Only in this way, can the volume of housing that is needed be met.

Question #4: Do you have any recommendations for streamlining the conventional Indian housing program?

NAIHC recommends that HUD be required to develop a formula-based system for development allocations that is fair and equitable to all IHAs. NAIHC realizes that it is critical for IHAs to participate in comprehensive planning but under the current allocation process, IHAs are continually subjected to a great fluctuation in their allocation for development funds. They are unable to plan from one year to the next and are either "gearing up" for a development project or "gearing down" from one. If IHAs could expect an estimated amount, they could plan more efficiently.

NAIHC also recommends that HUD, Indian Health Services and the Bureau of Indian Affairs develop a needs assessment/inventory which is comprehensive for all three agencies. Currently, IHAs and tribes must provide a separate needs assessment to all three agencies. This is an inefficient use of resources and results in ineffective planning. HUD should be required to design, in consultation with IHS and the BIA, one form that will assess an IHAs/tribes housing and infrastructure needs. Such an inventory would be more efficient and give a comprehensive picture of the true need.



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Testimony of
Paul S. Grogan
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Regarding
H.R. 3838
Housing and Community Development Act of 1994

Before the
Subcommittee on Housing and Community Development

Committee on Banking, Finance, and Urban Affairs

U.S. House of Representatives

April 20, 1994

TESTIMONY OF PAUL S. GROGAN

Good morning, Mr. Chairman. My name is Paul Grogan. I am the President of LISC, the Local Initiatives Support Corporation. I am pleased to testify today about H.R. 3838, the Housing and Community Development Act of 1994 and, more generally, the role of nonprofit community development corporations, CDCs, in housing and community development activities and programs.

About LISC

LISC was created by the Ford Foundation and six corporations in 1979 as a nonprofit organization to assist CDCs in their efforts to transform distressed neighborhoods into healthy communities. LISC operates with the convictions that: community regeneration must come from within the community itself; that government at all levels, the private sector, and community residents all have critical roles to play and must work together as active partners; and that CDCs are the most effective agents for fighting poverty in the most distressed communities in the United States.

LISC helps CDCs grow by providing financial and technical resources. We finance projects and help CDCs work with banks and local governments to: repair the physical landscape and social fabric of neighborhoods; build decent, affordable housing; and improve commercial and retail services for community residents. Equally important, we seek to strengthen emerging CDCs and create new organizations through community organizing and leadership development activities.

LISC now operates 32 local programs nationwide, and has become the nation's largest private, nonprofit community development intermediary. A list of LISC's program locations is attached. Funds raised by the local program are matched by national LISC on a formula basis. Each LISC area is served by local staff and governed by a local advisory committee which recommends CDC projects for funding to LISC's national Board of Directors.

Our primary focus has been to build the financial and technical capacity of CDCs to sponsor housing and commercial development projects. We provide technical assistance and project financing to aid CDCs: grants, loans, recoverable grants, equity investments and loan guarantees for project development, operating support, capacity building and up-front pre-development costs. LISC provided more than \$236 million in grants, low-interest loans and equity for CDC-sponsored projects nationwide in 1993. LISC support is often the first money committed to a project, helping to leverage additional private and public resources and adding credibility to the project.

Our threshold criteria for funding a CDC are straight-forward. The CDC must be charitable, have a comprehensive neighborhood revitalization mission, and be low-income

community-based as reflected by the composition of the staff and governing board.

Since its inception, LISC has:

- Raised \$1.2 billion in grants, loans and equity investments from more than 1,200 corporations, foundations, individuals and public agencies.
- Enabled CDCs to use these funds to leverage an additional \$2.2 billion in financial support.
- Helped about 1,000 CDCs nationwide build or rehabilitate 50,000 homes and apartments and create 8.4 million square feet of commercial and industrial space.
- Identified, elevated, and nurtured indigenous leadership in inner-city neighborhoods.
- Publicized the achievements of individual CDCs, thereby contributing to a more favorable climate for their support, and helped to develop and ensure the passage of legislation essential to the community development movement.

To support local community development activities, LISC has created new mechanisms to attract new resources at the national level.

For example:

- In 1987, LISC formed the National Equity Fund (NEF) to syndicate corporate investments in CDC-sponsored low-income rental housing via the federal Low Income Housing Tax Credit. NEF is the nation's largest nonprofit affordable housing investment program. It has raised \$900 million from 114 corporations, helping CDCs to create 20,000 housing units.
- In 1993, LISC formed The Retail Initiative (TRI), a corporate equity fund to help CDCs develop supermarket-anchored neighborhood retail shopping centers. This June we will announce the formation of an unprecedented initial investment pool. We expect to make our first project commitments to CDCs later this year.
- Created the Local Initiatives Managed Assets Corporation (LIMAC) in 1986 to attract new capital for CDCs by creating a secondary market for affordable housing and community development loans made by nonprofit Community Development Financial Institutions. LIMAC has raised about \$21 million from private sources, and is in the process of raising an additional \$25 million, for a total of \$46 million. A substantial portion of the new funds will come

from religious pension funds and be available for 15 years. LIMAC has committed to purchase \$51 million in loans from CDFIs and has already purchased \$30 million in CDFI loans, using funds raised and recycling loan repayments as they are received. We believe that LIMAC can play an important role in expanding resources for CDFIs. We are grateful to the Banking Committee for including in its CDFI legislation a mechanism for organizations like LIMAC to provide liquidity to CDFIs.

- LISC helped to conceive the National Community Development Initiative (NCDI), under which seven private foundations and Prudential Insurance Company provided \$62.5 million in grants and loans to assist CDCs in developing 4,400 affordable new homes. LISC and the Enterprise Foundation administer the funds. A second phase of NCDI is currently underway. Largely thanks to you, the Housing Subcommittee, and the Banking Committee, Mr. Chairman, last year the Congress authorized and appropriated \$20 million for HUD to contribute for this second phase. Last month, NCDI announced that 10 national foundations and corporations would provide \$67.65 million in grants and low-interest loans as match for the federal funds. LISC and Enterprise will pass every federal grant dollar through to CDCs, primarily for capacity building activities. We expect these nationally raised funds to generate at least another \$660 million in project financing, a remarkably effective use of federal funds.

LISC plans to expand the scope of its activities to include rural community development, social community development, and a wider range of economic development activities, all the through CDCs.

The Role of CDCs and Other Nonprofits

Mr. Chairman, CDCs are one type of nonprofit organization with important roles to play in housing and community development, but not the only one.

As I mentioned earlier, CDCs are community-based -- that is, they are accountable to one or more distressed low-income neighborhoods or rural areas where they focus their efforts -- and their mission to rebuild their communities physically, economically and socially transcends housing or any other single issue. They are community institutions that can be a catalyst for revitalization, an incubator for indigenous leadership, and a partner -- not a substitute -- for government and the private sector. They are pragmatic, collaborative, and constructive advocates for their communities. The latest national survey of the CDCs by the National Congress for Community Economic Development showed that, as of 1990, about 2,000 CDCs had developed about 320,000 units of housing serving about 1 million people, built 17.4 million square feet of commercial and industrial space, made over 3500 loans to

small businesses, and created or preserved 96,000 permanent jobs. A large majority of CDCs also undertook social service, anti-crime, or advocacy activities. But as impressive as these numbers is the qualitative impact of CDCs. I invite you to visit with us in New York, Chicago, or Los Angeles, or right here in Washington to see for yourself what CDCs are doing: to talk with neighborhood residents, city officials, and bankers and other corporate leaders; and to feel the pragmatic optimism, the vision, and the hope that CDCs are generating. You might also be interested in a new documentary about the early history of CDCs, which PBS will show next Tuesday, April 26, at 10 p.m.

Besides CDCs, other nonprofits undertake important housing and community development work. In housing, special needs organizations are dedicated to serving the homeless, the elderly, the physically or mentally disabled, and other target groups with particular problems that frequently require allied service provision. CDCs frequently serve these populations as part of their own mission, but special needs providers typically do not have a broad community development agenda or concentrate on defined neighborhoods. Still other nonprofit housing organizations develop affordable housing on a citywide or regional basis. These organizations are often well positioned to acquire RTC, HUD-owned, or expiring use properties, most of which are outside the low-income target areas of geographically focused CDCs.

Supporting many of the nonprofits that actually develop and operate housing are nonprofit intermediaries. These include LISC, the Enterprise Foundation, Neighborhood Reinvestment Corporation, and Housing Assistance Council, on the national level. There are also several local intermediaries. Intermediaries attract resources on a wholesale basis, and provide financial and technical support to local nonprofit developers. Funders often find it simpler and more efficient to assist local nonprofits through intermediaries that can manage the financial, administrative, technical, and legal risks and responsibilities associated with activities as complex and difficult as housing and community development. To be effective, it is essential that intermediaries add net resources to the field and act as a bridge between funders and project sponsors rather than a fence. We believe LISC and most other intermediaries meet these tests and have greatly facilitated the growth and effectiveness of CDCs and other local nonprofits.

Nonprofit Use of Federal Housing and Community Development Programs

You have asked us to comment on various federal housing and community development programs. Although we hope to begin a major new initiative in rural community development soon, we would like to defer comment on Farmers Home Administration programs until we become more experienced with them. Instead, we will focus on those federal programs with which we are most familiar.

CDBG. The Community Development Block Grant program has for many years been a critical resource for CDCs and low-income communities generally. We strongly support

CDBG and urge reauthorization at no less than \$4.4 billion, the FY1994 funding level. In 1992 and earlier this year Congress made several changes to refine the program. HUD is now considering administrative changes to implement these changes and remove regulatory obstacles to economic development. At this time we are unaware of the need for major statutory changes in CDBG.

HOME. HOME is rapidly becoming HUD's most important tool for producing affordable housing and an indispensable resource for nonprofit and for-profit sponsors and state and local governments. In our view, the most pressing legislative needs for HOME at this time are reauthorization and appropriations at the full FY1994 authorization level of almost \$2.2 billion. At minimum, FY1995 appropriations should at least equal the FY1994 level of \$1.275 billion.

As you know, Mr. Chairman, the National Housing Task Force convened in 1987 conceived what became the HOME program in 1990 as the centerpiece of the Cranston-Gonzalez National Affordable Housing Act. As a member of that task force, ably chaired by Jim Rouse and David Maxwell, I know that we and the Congress intended HOME to be a flexible, decentralized resource, but numerous compromises required to secure enactment severely hindered the program in its early days. Mr. Chairman, under your leadership and that of the Housing Subcommittee, critical changes were made in late 1992 to make the program work as originally envisioned. Additional refinements were also enacted earlier this year.

Regulations implementing the 1992 legislation were issued in early 1993. From the local perspective, the HOME program truly began at that time -- only about one year ago. Since then, the HOME has quickly begun to show its potential. We are involved with numerous HOME-funded projects, some of which are already completed and occupied. Any new program requires some getting used to, but we are enthusiastic about the way HOME is taking hold. It is making an important difference to low-income people and communities nationwide.

We are especially pleased by the way HOME is helping to forge new local partnerships with CDCs. As you know, 15 percent of HOME funds in each state and locality are reserved for Community Housing Development Organizations (CHDOs), whose definition accommodates the vast majority of CDCs. In addition, the 1992 amendments permit states and localities to use up to 5 percent of their HOME funds to support the CHDOs. These provisions have sparked new and greater opportunities for CDCs. Where CDCs and state and local governments already had good relationships, HOME has strengthened and deepened those relationships. Elsewhere, HOME has brought CDCs and state and local governments together for the first time.

For example, the City of Boston, which has enjoyed a long and productive relationship with CDCs, has committed \$600,000 of HOME funds to attract \$1.8 million in private donations toward a five year program to build CDC capacity. This Neighborhood

Development Support Collaborative will provide CDCs with operational support, technical assistance, working capital, and other critical resources. This is the second round of this Collaborative, which began in 1986 with funding from foundations, the United Way and LISC. Participating CDCs developed 3,000 housing units during this first program phase, even as Massachusetts faced severe economic and budgetary hardships. Of equal significance, the Collaborative has enabled CDCs to become United Way affiliates, an approach that is now being pursued in other cities, despite the United Way's own tight budgetary constraints. LISC administers the Collaborative's program on behalf of the other funders.

Although the HOME program is generally in good shape, there is one significant programmatic augmentation that could be very useful. To involve private lenders and secondary market entities to a greater extent, HOME should be amended to allow participating jurisdictions to provide federal guarantees for loans on HOME-eligible single family and multifamily housing. The guarantees would be backed by the jurisdiction's future HOME allocations. Jurisdictions would be permitted to extend federal loan guarantees in the aggregate amount of up to five times their annual HOME allocations. No HOME funds would be drawn unless a guaranteed loan goes into default. This proposal is consistent with Congress' purposes in enacting HOME, including increasing use of private sector investment, leveraging scarce federal resources, and providing credit enhancement to supplement existing credit enhancement sources.

This loan guarantee mechanism would be sufficiently flexible to meeting the following kinds of local needs: construction or permanent financing; ownership or rental housing; taxable or tax-exempt financing; partial or full coverage against losses; and short-term or long-term guarantees. All projects would comply with HOME program-wide use and targeting requirements and each rental project would meet project-level targeting requirements. We would be happy to work with you further on this idea.

Section 8. Over the past several years, nonprofit community-based development corporations have increasingly used federal resources such as the HOME and CDBG programs and the Low Income Housing Tax Credit (LIHTC) to successfully develop affordable housing. However, this housing often cannot meet the needs of the poorest neighborhood residents, who cannot afford even modest rents. Additionally, waiting lists for Section 8 certificates/vouchers operate on a citywide basis and in many cities are so oversubscribed as to be effectively closed. The result is that Section 8 rental assistance is unavailable to poor residents of neighborhoods where affordable housing is being developed by nonprofit development corporations.

One way to address this issue is to establish an optional allocation of Section 8 certificates and vouchers for nonprofit developed housing. This would ensure that affordable housing and community development efforts benefit community residents, including those whose incomes are too low to participate otherwise. It would additionally increase housing opportunities for underserved populations, including racial and ethnic minorities. Here is one

way this approach might work.

1. Local public housing authorities would be permitted to allocate up to 25% of newly available Section 8 certificates and vouchers for use in new and existing nonprofit-sponsored housing developed with federal assistance (e.g., HOME, CDBG, LIHTC).
2. Nonprofit sponsors could fill up to 25% of the units in each development with tenants participating in this Section 8 neighborhood allocation.
3. Nonprofit sponsors would develop and maintain a separate waiting list for Section 8 eligible applicants residing in their neighborhood.
4. As qualified applicants reach the top of their neighborhood waiting list, they would be designated by the nonprofit sponsor in order to receive a Section 8 certificate or voucher from the special neighborhood allocation. The public housing authority would then process applicants according to usual standards and procedures. Federal preferences, fair housing guidelines and all other applicable regulations would continue to apply.
5. When a tenant receiving Section 8 assistance from the neighborhood allocation exceeds income eligibility or relocates, the nonprofit sponsor could fill the unit vacated (or another one in the development) with another tenant from the neighborhood waiting list, as long as no more than 25% of the units in the development are occupied by recipients of Section 8 assistance from this neighborhood allocation.

Community Reinvestment Act. Although CRA itself is not under this Subcommittee's jurisdiction, CRA is critical to the effective utilization of CDBG, HOME, and other programs that are the responsibility of this Subcommittee. First, CDCs and other sponsors typically combine bank loans and public funds in their projects, so CRA plays a critical role in leveraging federal resources and getting projects done. Second, and more broadly, federal spending programs, even if greatly expanded, cannot revitalize low-income communities if those communities lack the active participation of the private sector and adequate access to private financing sources. CRA and the Home Mortgage Disclosure Act have been instrumental to involving regulated financial institutions in these communities. While implementation of CRA has been disappointing, there can be no doubt that banks would be doing much less than they are without CRA.

As you know, the four federal regulatory agencies are now revamping the regulatory framework for implementing CRA. We support the regulators' goal of re-orienting CRA more towards performance and away from process. However, we also have concerns about several aspects of their proposals.

Most relevant for the purpose of today's hearing are two points. First, the regulators' proposal gives insufficient weight to community development, in terms of both lending and investment. Unless changed, the regulators' proposal could unintentionally reduce incentives for banks to participate in HOME and CDBG-funded activities. We recommend replacing the proposed investment test with a community development test. Second, the regulators' proposal does not provide for any formal analysis of community credit needs. Without such an analysis, it will be impossible to assess whether banks are being responsive. Several local government organizations, including the National League of Cities and the U.S. Conference of Mayors, strongly recommend that individual municipalities should take the lead in formally assessing community credit needs. We would like to explore the possibility of amending the CHAS and non-housing CDBG planning requirements to include such credit needs assessments.

Low-Income Housing Tax Credits. Although LIHTCs are also outside the Subcommittee's jurisdiction, their presence in HOME and CDBG projects and their importance to CDCs requires a brief mention. LIHTCs finance the vast majority of affordable rental housing production, and are frequently combined with HOME or CDBG funds. The LIHTC has greatly expanded private investment in CDC housing, and CDCs and other nonprofits develop a substantial share of LIHTC housing. The Housing and Community Development Act of 1992 and the Omnibus Budget Reconciliation Act of 1993 resolved most of the problems that prevented effective combining of HOME and the LIHTC, and production is now increasing rapidly as a result.

Building Community Capacity

You have also asked me to comment on any additional legislation that might improve the performance of nonprofit housing and community development organizations. One important addition would be to expand capacity building resources for community groups. We understand that HUD intends to propose a new Community Viability Fund, a major purpose of which would be to expand community organizations' capacity. While we have not seen the specific provisions of the Community Viability Fund, expanding community capacity would be extremely valuable.

Capacity building may take different forms and achieve different objectives. The most common is training and technical assistance to help CDCs or other nonprofits develop specific projects. This is most attractive to many funders because it is so closely related to actual projects. It is LISC's experience that this assistance is both important and effective. One particular method LISC has developed has been to provide training to a group of several CDCs on the successive phases of project development over the course of a year, along with technical assistance funds to enable them to work through actual projects. In Los Angeles, 11 nonprofits with little or no previous housing development experience developed 400 units as a result of one such LISC-sponsored project-based training and technical assistance program. We have conducted similar programs in several other cities.

Even experienced and capable CDCs have difficulty covering their basic operational costs. While individual projects can be self-sustaining, the cost of sustaining CDCs as true community organizations, as well as pro-active developers, usually requires finding at least partial subsidy. The shortage of operational support is one of the biggest obstacles to the growth of CDCs. A CDC distracted by this problem cannot devote full attention to rebuilding its community, but many funders have traditionally found it difficult to decide which groups should receive funds, how to keep groups accountable for using funds productively, or how to determine with rigor if such programs are truly effective. LISC has developed an approach that addresses funders' concerns while remaining responsive to individual CDCs' needs. First, CDCs are selected based on a competitive application process. Second, once accepted, each CDC retains a management consultant to undertake an organizational assessment that covers, among other things, financial systems, management structure, the strength of the CDC's governing board, project development and management capacity, and strategic neighborhood planning. Third, each CDC establishes a plan, with performance milestones and approval by the funders, for achieving its own unique set of organizational and program objectives. Fourth, continued funding is contingent on satisfactory progress based on these milestones. Finally, the entire program is usually examined by an independent evaluator. The first program to follow this approach was Boston's Neighborhood Development Support Collaborative, which I mentioned earlier. It has been enormously successful but, yes, a couple of CDCs had to be replaced because they could not make sufficient progress. A key element is to make the process and expectations open, clear, and fair, so that even difficult decisions can be broadly accepted. We now administer about a dozen such programs around the country, and we believe they are extremely valuable to the CDC movement, as well as to effective project development and management.

In some places, however, communities are insufficiently organized to form CDCs, let alone utilize training, technical assistance, or operating support resources effectively. Yet, CDCs must be at least potentially workable in a wide range of locations if they are to reach their full promise as instruments of national policy and community regeneration. At the outset, it is useful to note that far more CDCs with real capacity and results exist in many more places than was the case 20, 10, or even five years ago. Nevertheless, as you might imagine, this issue is crucial for us not just because of the public policy implications but also for practical programmatic reasons. LISC cannot be an effective intermediary in places that lack even the makings of CDCs. So over the past few years we have devoted considerable effort to devise an approach to community organizing that is appropriate to community development. The approach combines traditional organizing techniques with the collaborative partnership orientation that community development requires. We have been going through the process now in several cities that previously had few or no well organized neighborhoods. It is our experience that the vast majority of even the poorest of these neighborhoods have the potential leadership, motivation, and capacity to organize themselves effectively for community development. The New School for Social Research is evaluating our efforts, and we are confident that techniques such as this one can bring the CDC movement to places it has never been.

In addition to project-oriented training and technical assistance, operational support, and community development organizing, CDCs have a range of other capacity building needs, including: board training to help CDCs remain accountable to their communities as they become larger, more sophisticated, and more complex both organizationally and programmatically; property management training, especially with respect to rental housing; and assistance to address such pressing community development issues as crime, the development of community service facilities, and economic development.

Seen in this context, existing federal resources for community capacity building, while greater than previously available, should be expanded. The three primary sources of assistance are HOME, the expiring use property preservation program, and NCDI. Under HOME, \$14 million is available (\$25 million for FY1994 only) primarily for project-oriented technical assistance. The preservation program's assistance is appropriately restricted to prospective purchasers of expiring use properties; CDCs are expected to comprise a minority of nonprofit recipients of this assistance, since most of the neighborhoods CDCs serve are too distressed to have HUD-assisted properties ripe for conversion to non-low-income use. Finally, NCDI is limited to 23 cities and spread over three years. We believe that Congress and the Administration should regard capacity building activities as a cost-effective investment in a CDC industry that has already produced much and promises to deliver much more. We believe that the magnitude and urgency of low-income community problems and the efficacy and unique role of community organizations justify expanded federal support.

Economic Development

A second area where additional legislation would be beneficial is to support economic development activities in distressed communities. The Congress and the Administration are already working to make better use of CDBG, UDAG recaptures, and Section 108 for economic development. We also understand that HUD will soon propose a new initiative in this area call Neighborhood LIFT.

While we must defer specific comments on LIFT until more details are available, we can offer some general observations.

First, a well focused economic development project grants program could be an important addition to HUD's arsenal, which currently lacks any dedicated economic development program. The situation we face now in economic development is in several respects similar to what we faced in housing prior to the HOME program. The need clearly exists in this case for retail and industrial and development projects that provide crucial jobs and services and physically rebuild the deeply distressed communities that deserve to be a higher national priority. As CDCs and others begin to stabilize the housing stock and population base of low-income neighborhoods, their market potential for sustaining retail and other businesses is becoming more apparent. The greatest obstacle will be to fill

financing gaps in commercial and other economic development projects. Pressures on CDBG funds at the local level make it hard -- and probably counterproductive -- to divert existing resources away from other important priorities. A focused national program is a good vehicle for sharpening local focus and building capacity to address the economic development needs of distressed communities. It can also focus a national spotlight on what can effectively be accomplished in a way that local CDBG allocations cannot. We believe it necessary and appropriate for the Administration to have some flexible resources to try some new initiatives like this one.

Second, any new economic development program should receive separate funding, and not be an allocation from CDBG or other program funds. Taking money from CDBG would create an unnecessary zero-sum problem, and new economic development initiatives should be separately funded. Funding for HOME has not come at the expense of CDBG, even though there is some overlap of eligible activities. If it had, neither we nor many others would have supported HOME. The same logic should apply to LIFT or any other new economic development program. LIFT, HOME, and other programs must win funding based on their importance to the nation and communities and their effective operation. The only way to obtain more federal support for housing and community development overall is to have excellent programs.

Third, LIFT should be targeted to distressed urban neighborhoods and rural areas, where needs are most compelling and the primary purpose of projects will unquestionably be their public benefit, not private gain. The UDAG program lost important public support because some projects appeared to generate more private benefits than public benefits. For urban areas, a focus on neighborhood over citywide needs can also preserve area targeting without the kind of strong regional bias that undermined UDAG.

Fourth, a new economic development program should target communities with a comprehensive revitalization program and favor the participation of CDCs. Economic development projects in distressed communities will be less successful if undertaken in isolation or without community support and involvement.

Fifth, the leverage of private and public funds should be a funding criterion but not to the exclusion of other factors. Such leverage can stretch the impact of scarce federal funds, instill private underwriting rigor, and make states and localities partners with the federal government rather than just grant seekers. But projects that promise extreme leverage may call into question the necessity of federal involvement, and crowd out other projects with other strong elements.

Conclusion

This concludes my testimony. I would be happy to answer any questions you may have.

LISC PROGRAM AREAS

- | | |
|-----------------------------|------------------------|
| 1. BATON ROUGE | 17. MID SOUTH DELTA |
| 2. BAY AREA | 18. MONONGAHELA VALLEY |
| 3. BOSTON | 19. NEW ORLEANS |
| 4. CHICAGO | 20. NEW YORK CITY |
| 5. CLEVELAND | 21. NEWARK |
| 6. CONNECTICUT MULTI-CITIES | 22. NORTHWEST INDIANA |
| 7. DETROIT | 23. PALM BEACH COUNTY |
| 8. HOUSTON | 24. PHILADELPHIA |
| 9. INDIANA MULTI-CITIES | 25. PHOENIX |
| 10. INDIANAPOLIS | 26. PUGET SOUND |
| 11. KALAMAZOO | 27. RHODE ISLAND |
| 12. KANSAS CITY | 28. RICHMOND |
| 13. LITTLE ROCK | 29. SAN DIEGO |
| 14. LOS ANGELES | 30. ST. PAUL |
| 15. MIAMI | 31. TOLEDO |
| 16. MICHIGAN MULTI-CITIES | 32. WASHINGTON, DC |

Questions for Paul Grogan from Chairman Gonzalez

1. Do Enterprise and LISC require that the CDCs that they support ever become self sufficient or will local CDCs always require operational or administrative support from either the Federal government, LISC or Enterprise, or other funders?
2. Although I do not know the reason that Assistant Secretary Cuomo is holding up the CHDO technical assistance funds, it may have something to do with coordinating the various pots of money. Would it not be easier for your organizations to have one source of technical assistance or capacity building funds than the many that are available, each with different time lines and application requirements?
3. Under the HOME program, there is a requirement that CHDOs own or sponsor any project for which it receives set-aside funds. In some areas of the country, particularly rural areas, where development may be scattered, this may preclude use of the CHDO funds even if there eligible CHDOs. Would there be any objection to permitting CHDOs to administer housing programs such as owner occupied housing rehabilitation programs where the CHDO would not own the housing, but where the CHAS indicates that this is the legitimate housing need in the area?
4. There have often been criticisms of the trend toward nonprofit and CDC development and capacity building as being in competition with public agencies, like public housing agencies, or private for profit developers. Do your organizations have strategies for working with local and state governments and their agencies, establishing partnerships? How do you counter that criticism?
5. What criteria do your organizations employ when selecting geographic areas in which to concentrate your efforts, other than the potential of organizing CDCs or nonprofits that will be viable? On what bases would you rule out localities?
6. Your comments about CRA and HMDA prompt me to ask the following questions even though as you point out neither law is under the jurisdiction of the Subcommittee. What recommendations would you offer to conventional lenders and the secondary market so that affordable housing and revitalization of distressed areas become a regular rather than excepted part of their business? How do we get to the point that such investment is not considered overly risky or does not present exceptional risk?
7. As you know the President signed into law the Multifamily Housing Property Disposition Reform Act of 1994. Do you foresee investing your funds in support of purchasing some of these buildings or mortgages?



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Responses to Questions from Chairman Gonzalez

**Paul S. Grogan, President
 Local Initiatives Support Corporation**

1. Do Enterprise and LISC require that the CDCs that they support ever become self-sufficient, or will local CDCs always require operational or administrative support from either the federal government, LISC or Enterprise, or other funders?

Many of the individual projects CDCs undertake can and must be self-supporting. However, we believe that providing some continuing operational or administrative support is appropriate to enable CDCs to start new activities, maintain community planning, networking and organizing functions which cannot generate income, and become strong, stable institutions in the distressed urban and rural communities where they operate.

We believe it is in the national interest for low-income communities to have capable community institutions that can reweave the social fabric, involve public and private institutions, and restore healthy, functioning market activity. Much of what CDCs do should generate sufficient income to be self-sustaining. A housing development or shopping center, for example, with the proper financial structure that typically involves some public subsidy and prudent reserves, should not require ongoing operational support. However, the distressed condition of low-income communities and the inherently limited economic potential of these projects makes it unrealistic to expect that revenues will be sufficient to maintain and grow a strong community institution.

2. Although I do not know the reason that Assistant Secretary Cuomo is holding up the CHDO technical assistance funds, it may have something to do with coordinating the various pots of money. Would it not be easier for your organizations to have one source of technical assistance or capacity building funds than the many that are available, each with different time lines and application requirements?

We understand that HUD will be issuing a "Super NOFA" (Notice of Funding Availability) for all technical assistance funds administered by the Office of Community Planning and Development. A single NOFA that allows technical assistance providers to secure funds for more than one CPD program at the same time will make the application process easier and allow providers to offer technical assistance consistent with the range of

activities in a given local area.

While we appreciate the streamlined process, we are hopeful that the Super NOFA will permit a wide range of technical assistance approaches. For example, at LISC we provide individualized technical assistance to CDCs as well as a variety of training programs for groups of CDCs based upon an assessment of the state of the art in a given locality. We have created year-long "learn by doing" programs where CDCs have received intensive group training and customized technical assistance in conjunction with the development of actual projects. These programs, which combine LISC financing with training resources, have proven exceptionally effective at building development capacity and would offer the federal government good leverage and tangible product.

3. *Under the HOME program, there is a requirement that CHDOs own or sponsor any project for which it receives set-aside funds. In some areas of the country, particularly rural areas where development may be scattered, this may preclude use of the CHDO funds even if there are eligible CHDOs. Would there be any objection to permitting CHDOs to administer housing programs such as owner-occupied housing rehabilitation programs where the CHDO would not own the housing, but where the CHAS indicates that this is the legitimate housing need for the area?*

From our perspective, it is important for CHDOs to be housing producers because transactions and other tangible activities are the basis for the kinds of ties and relationships that need to be built between low-income communities and public and private mainstream institutions. However, in communities where the CHAS indicates that production is not needed, and that other activities, such as rehabilitation of owner-occupied homes, are needed, we believe that CHDOs should play a meaningful role in meeting the identified needs.

4. *There have often been criticisms of the trend toward nonprofit and CDC development and capacity building as being in competition with public agencies, like public housing agencies, or for-profit developers. Do your organizations have strategies for working with local and state governments and their agencies, establishing partnerships? How do you counter that criticism?*

Not surprisingly, we believe that establishing working partnerships among CDCs, public agencies, and private entities and institutions is essential to the community development process. We do not believe that CDCs can or should do everything themselves. Rather, a crucial aspect of their role in communities is to attract investment and services from other parties -- including homeowners, for-profit owners and developers, and public agencies.

CDCs enjoy substantial support from public agencies at the state and local levels, especially in the form of gap financing for projects. Few of the projects CDCs develop would be possible without public agency involvement and support. Despite occasional tensions in these relationships, CDCs are usually seen as public purpose organizations that

help public agencies to achieve their missions. In addition, many CDCs undertake joint ventures with profit motivated developers (and we will finance those where the CDC plays a material role). More recently, public housing agencies and CDCs in several cities have begun to discuss possible collaborative relationships. Since the challenges facing lower income communities are frequently community-wide in nature (e.g., crime or lack of positive options for youth), we believe that creative and constructive collaborations are bound to emerge.

5. *What criteria do your organizations employ when selecting geographic areas in which to concentrate your efforts, other than the potential of organizing CDCs or nonprofits that will be viable? On what basis would you rule out localities?*

With an invitation from local actors -- public and/or private -- LISC will conduct an in-depth assessment to determine whether we can make a meaningful and measurable contribution to the creation or expansion of a local community development partnership. Our assessment considers the extent of public support as well as the potential to involve a range of private sector players, including financial institutions and philanthropies, as funders and as active participants in local program governance. We also carefully examine CDC capacity, local housing and community development needs, and local perceptions and experience with housing and community development programs. If there is sufficient interest and opportunity, we will match funds raised locally with national funds we raise to seed a local program.

We would not launch a program in a community where we do not see strong potential to engage public and private entities in a working partnership to expand nonprofit low-income community-led development efforts.

6. *Your comments about CRA and HMDA prompt me to ask the following questions, even though, as you point out, neither law is under the jurisdiction of the Subcommittee. What recommendations would you offer to conventional lenders and the secondary market so that affordable housing and revitalization of distressed areas become a regular rather than excepted part of their business? How do we get to the point that such investment is not considered overly risky or does not present exceptional risk?*

We believe that CDCs offer an opportunity for financial institutions to get into the business of lending in distressed communities. So often, lenders have only limited connections to a community and need someone to work with -- a point of entry -- to begin to see where and how sound loans can be made. CDCs have indigenous leadership, strong connections to community residents, relationships with a wide range of local institutions, and extensive local knowledge. Moreover, because they are place-based and there for the long-term, CDCs must be prudent and strategic.

For example, in several communities where we work, CDCs have undertaken the initial projects that demonstrate to lenders that there is indeed a market to be served. In these instances, initially we may assume a considerable share of the risk to enable the CDC to move forward. However, when CDCs demonstrate in a concrete fashion that houses can be sold and commercial space leased up, lenders can see that the risks are manageable and can and do increase their lending activity.

7. *As you know, the President signed into law the Multifamily Housing Property Disposition Reform Act of 1994. Do you foresee investing your funds in support of purchasing some of these buildings or mortgages?*

We operate in 34 parts of the country and in each place respond to local priorities. As such, if CDCs and localities are interested in acquiring HUD-held properties, we will do our best to assist them. In fact, we are working with CDCs on some of these projects now. However, we are a demand driven organization, so that our involvement will vary from place to place. In several instances, the properties subject to the new disposition provisions are not located in the specific neighborhoods where CDCs operate.

Testimony of
Karen Phillips
Executive Director
Abyssinian Development Corporation

Regarding
The Role of Community Development Corporations
in
Housing and Community Development

Before the
Subcommittee on Housing and Community Development
of the
Committee on Banking, Finance and Urban Affairs
U.S. House of Representatives

April 20, 1994

Testimony of Karen Phillips

Before the

**Subcommittee on Housing and Community Development
of the
Committee on Banking, Finance and Urban Affairs
U.S. House of Representatives**

April 20, 1994

Good morning Mr. Chairman. My name is Karen Phillips. I am the Executive Director of the Abyssinian Development Corporation (ADC), a community-based organization that was established five short years ago to foster the redevelopment of Central Harlem. I appreciate the opportunity to present testimony before this Subcommittee. I will provide you with background on my organization, a snapshot of what we at ADC have accomplished thus far, our views as to the particular assets community-based organizations bring to the community revitalization process, and, in light of our experience, our recommendations for future legislative action.

Background on Abyssinian Development Corporation

ADC was first established as a volunteer effort by the Abyssinian Baptist Church in 1987 and was incorporated in 1989. ADC emerged in response to the critical need for redevelopment of Central Harlem. The Abyssinian Baptist Church, founded in New York City in 1808, is one of the oldest African American churches in the country. As you well know, Abyssinian has a long history of community activism, and for over 30 years was led by the Rev. Adam Clayton Powell, Jr. who was, for a large portion of his pastorate, also a Member of Congress. He represented our neighborhood, where the church has been located since 1923. His father, who moved the church to Harlem, built not only a church but a community center which was there to help the community during the Great Depression.

We see ADC as a continuation of that tradition. ADC's mission is to create and maintain a viable community by providing affordable housing to people of diverse incomes, improving the delivery of social services to residents, and fostering the economic revitalization of Central Harlem. ADC programs originate out of the spirit of collective action, and are based on the belief that people can and want to make a positive difference in the quality of life in their neighborhoods. ADC's goal is to empower the people in the community to take action to redevelop and preserve Harlem's culturally significant heritage.

Since so many of the Members of this Subcommittee are New Yorkers, you will be familiar with the area in which we focus our efforts. Our target area encompasses Central Harlem from 125th to 155th Streets, between Fifth and St. Nicholas Avenues.

ADC's Accomplishments

In just a few years, we believe we have made a visible and meaningful impact in our community. We have: developed over 320 units of affordable rental and ownership housing at a cost of over \$30 million; undertaken in collaboration with local business leaders the rehabilitation of a long-vacant 1920s landmark -- the Renaissance Ballroom -- which will include ballroom and catering facilities with a food service training component and other retail activities; created a transitional housing development; and established a Head Start Center. We also helped to found the Central Harlem Local Development Corporation, which focuses on building assets in our community. The Central Harlem LDC provides financial and technical assistance for business development and commercial revitalization, and operates a loan fund for Central Harlem merchants. It also provides home purchase counseling to buyers of ownership housing we develop. In addition, ADC is moving forward on the development of a new supermarket on 125th Street.

Our real estate portfolio includes the following:

- **Abyssinian Towers**, a 100-unit new apartment building for the elderly. This \$9 million project was financed through the Section 202 program, and has been occupied since 1990.
- **West 131 Plaza** is a 38-unit rehabilitated condominium for moderate-income people. We co-developed this \$4 million project with financing through the New York City Housing Partnership, which has been occupied since June, 1993.
- **Samuel D. Proctor Apartments** is a 25-unit rehabilitated apartment complex serving low- to moderate-income families for which ADC served as a limited partner. This building also houses the **Annie G. Newsome Headstart**, a program serving 100 children.
- **Abyssinian House** involved the rehabilitation of 25 apartments to provide housing for formerly homeless families. We completed this project in March, 1992 at a cost of \$3 million. It has a 24-hour social services staff.
- **Hattie Dodson Houses** is a multi-site project we developed on 130th and 131st Streets, with 71 affordable rental units. Financed through the LISC/New York City Department of Housing Preservation and Development (HPD) production program, the project has been fully occupied since August 1992.

We are working with the West 131st Street Block Association to complete the landscaping on a vacant lot adjacent to one of the buildings. **Hattie Dodson Park** will be designed for sitting and for vegetable and flower gardening.

- **Lillian Upshur Houses** is a 66-unit affordable rental housing project we recently developed under the LISC/HPD production program.
- The **West 127th Street Green Thumb Garden/Playlot** is a venture with 127th Street residents. We will be helping them to landscape four City-owned lots for use as a garden and play area.
- Through **CITYHOME**, a venture of HPD and The Enterprise Foundation, ADC will market 24 brownstones, to be sold as 2- and 3-family owner-occupied homes.
- On **West 130th Street**, ADC is working with the New York Landmarks Conservancy to acquire and rehabilitate two row houses built in the 1880s. The buildings will provide 8 limited equity cooperative apartments. These houses, registered historic landmarks, were built on property owned by the grandfather of Vincent Astor. Today, the Astor Foundation is helping fund their renovation. Nearby, we are working with the West 130th Street Block Association to landscape a city-owned lot to create a sculpture garden and sitting area.

We have several other projects on the burner as well. These include taking on rent-up and management of two projects with a total of 134 units that are being developed through the City's Special Initiatives Program, building 42 rental units through the LISC/HPD program, assisting residents of an apartment building undertake the purchase and rehabilitation of their homes, landscaping vacant lots to create play space for a new Head Start program and a community garden, and launching the redevelopment of several vacant lots and buildings for moderate- to middle-income rental and ownership housing.

In addition to our real estate development work, we have a commitment to community organizing and to empowerment of community residents. We have assisted in establishing block associations on the blocks where extensive redevelopment has occurred and will continue to do so on blocks where we have completed or are planning developments. We believe the active participation of area residents -- which spawns a "can do" psychology -- is key to the revitalization process. We have organizers on staff who are responsible for numerous tasks, such as assisting with block clean-ups, making housing referrals, organizing block parties, and planning for tree plantings and community gardens, meeting regularly with tenant organizations in our buildings and establishing new tenant associations, and providing residents with information and advocacy on social services.

The objective of these activities is to strengthen the social fabric of our community by helping residents to find practical solutions to community problems.

I should mention that ADC has enjoyed an unusually high degree of organizational support from the philanthropic sector and from financial institutions. Among them are the Vincent Astor, Edna McConnell Clark, New York, and Surdna Foundations, the Lilly Endowment, the J.P. Morgan Charitable Trust, New York Community Trust, and Bankers Trust. This support has been flexible and I believe has contributed to the fast pace, diversity, and meaningful scale of our activities. This does not mean that I shun public funding. To the contrary, I would like to have more of it, especially if it were sufficiently flexible to allow ADC to pursue the kind of multi-faceted agenda we have begun. Streamlining the paperwork, which is especially burdensome for small organizations, would be very helpful. In addition, paperwork tends to lead to delay. In our community, delays have a clear impact.

The Role of Community-Based Organizations

I believe that community-based organizations, like ADC, have a unique role to play in the revitalization of communities. We are local, we know our community, we interact with residents and merchants every day, we know which buildings are scheduled for development and which ought to be developed. If we happen to forget, we have a board of directors, residents of our housing, users of our programs, and block associations and other community organizations to remind us of our tasks and their urgency.

In addition, we are not here to create a permanent underclass, but to attract and retain working families who can advocate for themselves. As a result, we have built all kinds of housing -- for the formerly homeless, for low-income working families, and for families of moderate means. We could, however, use more funding that would allow Central Harlem to compete as a location for moderate and middle income families.

We believe that a viable community has to have more than housing. It has to have people with skills, jobs, parks, programs for children and other residents, a lively shopping area, opportunities to get together to celebrate or tackle a community problem, and a sense of its history. We believe that the physical environment -- streets, buildings, and parks -- should be uplifting, not depressing. For physical change to be sustainable, the services needed for maintenance of the physical infrastructure must be provided. Other real estate developers also view these features as community assets, but only infrequently do they assume any responsibility for developing them.

ADC, as a community organization staffed by community residents and as a community player involved with other Harlem organizations, does not limit its attentions to ADC projects or initiatives. While we do have to work to preserve and improve the projects and programs we produce, we also concern ourselves with the parks, social services, and

housing provided by other organizations and entities.

In sum, I believe that organizations like my own add value -- tangible value -- to the community revitalization process. We have local knowledge, we can marshal community involvement and civic participation, we offer a hopeful vision of a community's future, we deliver tangible products to fulfill that vision, and take seriously our role in preserving and expanding community assets.

Legislative Recommendations

The legislative recommendations I would make stem largely from the issues ABC is facing today. They are:

- **Economic Development:** As we embark on the development of a major supermarket, I can personally testify to the difficulty of securing the funding that is needed for economic development projects, particularly the scarcity of equity funds that leverage private debt financing. Our project involves grants from the Department of Health and Human Services Office of Community Services, as well as from state and city agencies. We hope to secure private equity financing through a new LISC initiative. Although we are making progress, I can assure you that more funding for community economic development projects is needed.

Similarly, the Central Harlem Local Development Corporation, finds it difficult to secure sufficient funds for its economic development activities. It does receive some CDBG funds through the City's Office of Business Services, but in light of the existing demand for CDBG funding, it is unlikely that the LDC can expand its efforts with this source of funds.

I am not well acquainted with the specifics of the Leveraged Investments for Tomorrow (LIFT) program HUD is proposing, but from what I know, I believe such a program would meet important needs in communities across the country. I hope this Subcommittee will work with HUD to develop a workable program for community economic development projects.

- **Core Support:** As successful as we are in raising private funding for our operations, we have a lean staff and the constant fundraising effort stretches our scarce management resources. Capacity we could be using to develop and implement projects and programs is frequently devoted to maintaining the basics. We need some core support from a steady source to build the next projects. We understand that the operating support permitted under HOME for Community Housing Development Organizations could be made available for these purposes. We intend to pursue this. I hope the Subcommittee will

take note that core support funds are scarce and hard to obtain as it considers how it can promote community-based revitalization activities.

- **Community Security:** Our first project, a 100-unit Section 202 on West 131st Street, has always worked very well for the residents. One reason for this is that we can provide security through hardware (like entry buzzers) and a 24-hour on-site staff that carefully monitors activity in the building. This building is on a street beginning to take shape as a "model block" -- we have developed several Low Income Housing Tax Credit projects and condominiums, and the City and private developers have restored several other buildings. To make the most of the concentrated activity that has occurred, we would like to expand our security efforts beyond the confines of our elderly building. However, these other programs make no provisions for active security efforts.

We have two ideas about how to address this. The first would be to have a funding source through HUD (perhaps with funds generated through the crime bill) that would address security as a community issue that should involve community organizations, and not as an issue tied to individual buildings. The second approach would be to strengthen a community's internal defenses and build better relationships with law enforcement officers by encouraging active duty law enforcement officers to live in affordable housing in low-income communities even if they do not qualify based on income. This is already permissible in public housing, and we believe it would be beneficial in other kinds of housing, both ownership and rental. As you know, responsive, working relationships between the police and the community are hard to foster as a result of lack of knowledge, familiarity and trust on both sides. We would encourage you to allow police officers to be treated as eligible households for HOME and CDBG, and to recommend to the Ways and Means Committee that a similar provision be enacted for the Low Income Housing Tax Credit. This should be limited to housing low-income communities, with some limits on the number of police-occupied units per project and for the program overall.

In addition, I believe the provision in H.R. 3838 that would permit Section 8 rent adjustments to be made to accommodate security costs will be very helpful. We appreciate your recognition that security needs are reflected in operating costs, and that in many instances, these costs have increased substantially.

- **Bringing the Community Together:** As I mentioned earlier, we have community organizers that are responsible for establishing block associations to bring community residents together around such issues as clean streets, municipal services, parks, and future plans for the neighborhood. Our staff also make referrals to social services and to housing and help with benefits.

It is this (hard) work that gives us and our community our edge. We are lucky to be in New York City, the nation's philanthropic capital, where at least some funding can be raised for these efforts. This simply is not true in many other parts of the country. I cannot speak to the particulars of HUD's proposed Community Viability Fund, but I believe that a program that supports activities, like organizing, that bring a community together around a common agenda, is an important ingredient to ensure that programs like HOME, CDBG, and others under your jurisdiction, build communities and not just buildings.

- **Building Capacity:** One of the things you may have noticed from the project descriptions I presented earlier is that in New York we have several intermediary programs, including LISC, Enterprise, the New York City Housing Partnership, and several others. A useful and important function played by these organizations is that they provide an integrated financing package that usually involves different sources of funds -- local, state, and federal, as well as private. We also secure funding directly from the City and other sources. While in all cases we have to do all of the work to get the project done, we do not have to deal with all of the intricacies of the financing all of the time. In addition, funders such as LISC have provided funding for salaries when we needed staff to take on new ventures, the installation of computers and training to use them, for consultants, and for early project investigations and predevelopment activities. I do not think we could have accomplished all that we have in five years without the organizational and project assistance we secured from these sources. HUD will be supporting activities like these through the National Community Development Initiative. Based on our experience, you can expect good results.

Conclusion

This concludes my testimony. I appreciate the opportunity to appear before you today. I am happy to answer any questions you may have.

Questions for Ms. Phillips from Chairman Gonzalez

First, I want to commend you for both your testimony and your apparent successes.

1. Do you ever foresee the day when you will be self sustaining? If so how would you do so?
2. Can you describe for the Subcommittee your relationships with the local governments and public agencies in Cleveland and New York? Aren't good relationships critical to your success?
3. It would seem that several sources of financing are still necessary for developing affordable housing. Can you comment further on this?
4. You have said that capacity building and operating funds are critical to your success. Would it be easier if you could concentrate on one source for that support rather than looking to intermediaries and a myriad of other programs and funding sources? Do you have to report to all your funding sources about your progress?

Responses to Questions from Chairman Gonzalez

Karen Phillips, Executive Director Abyssinian Development Corporation

1. *Do you ever foresee the day when you will be self sustaining? If so, how would you do so?*

Although Abyssinian Development Corporation (ADC) is not self sustaining today and is unlikely to be so for several if not many years, we believe that the work we are doing with the support of outside funders puts us on the path to self sufficiency.

By developing owner-occupied and rental housing for a range of income groups, building amenities such as parks and childcare centers, restoring neighborhood landmarks and housing job training programs within them, and organizing civic participation through block clubs, we hope our community will become a place that can attract and retain working families. If we are successful, we will have not only a healthy community but a market that can support our corporation.

However, to move in this direction, we understand that we must take on tasks that are not compensated through development budgets and cannot be accommodated through the tight operating margins our market yields today. These activities include being an active participant in our neighborhood's affairs, bringing community residents together and assisting them to work on issues of mutual concern, and studying program options and identifying those most likely to work in our community.

2. *Can you describe for the Subcommittee your relationships with the local governments and public agencies in Cleveland and New York? Aren't good relationships critical to your success?*

ADC has effective relationships with the City of New York and State of New York. In the City, we serve on Community Board Committees, other community organizations and business groups, as well as trade associations and advocacy organizations.

3. *It would still seem that several sources of financing are still necessary for developing affordable housing. Can you comment further on this?*

In New York City, there are several intermediary organizations -- including LISC, Enterprise, and the New York City Housing Partnership -- that make it easier to use multiple source financing. At the same time, ADC also develops projects outside of intermediary programs. In particular, assembling financing for economic development

projects can be arduous.

More generally, the typical affordable housing development is going to involve three sources -- debt, equity, and public gap financing. A project with this configuration can be quite workable and is likely to be stronger as a result of the attention underwriting receives from the three sources. Most of the housing we do fits this model. However, when the number of financing sources gets larger than this, it can be terribly time consuming and expensive to assemble a complete financing package and reconcile lenders' disparate requirements once you have done so.

4. *You have said that capacity building and operating funds are critical to your success. Would it be easier if you could concentrate on one source for that support rather than looking to intermediaries and a myriad of other programs and funding sources? Do you have to report to all your funding sources about your progress?*

We spend a considerable amount of our time and energy raising funds. I would like to spend more of our limited time and energy planning and developing projects. At the same time, however, I would not choose to rely upon any one source of funding for my organization.

In our experience, funders change their priorities from time to time. A CDC needs to have a diverse funding base to survive these changes. In addition, few funders would choose to be wholly responsible for a nonprofit organization. Rather, a CDC's ability to attract resources from several sources enables funders to be more confident that they are supporting a responsible organization. In sum, although a single source of capacity building and operating funds would be extremely tantalizing, it isn't realistic nor good for our organization over the long haul.

We believe that having public funding sources make multi-year commitments would moderate (but not eliminate) the perpetual scramble for resources. In so doing, this funding would enhance our ability to focus on creating a sustainable community development organization.

We provide progress reports to all of our funders. Many of these require considerable effort on the part of ADC staff. Ideally, we would like to operate more like a corporate business and issue a detailed annual report to document our progress.

**Statement of
F. Barton Harvey, III
Chairman of The Enterprise Foundation
before
The Subcommittee on Housing and Community Development
Committee on Banking, Finance and Urban Affairs**

April 20, 1994

Chairman Gonzalez, Congresswoman Roukema, and members of the subcommittee, thank you for the opportunity to testify about the role that nonprofits play in the affordable housing delivery system. As you begin your work on the housing reauthorization legislation, we appreciate your willingness to listen to what community-based nonprofits can do to further the goal of decent and affordable housing for all Americans.

This morning I would like to discuss the broad outlines of what The Enterprise Foundation does and how federal policies and programs have an impact on the work of community-based nonprofits. We would be happy to follow up with detailed comments on HUD's housing authorization bill.

The Enterprise Foundation

The Enterprise Foundation is a nonprofit organization founded by Jim and Patty Rouse in 1982. Our mission is to see that all low-income Americans have access to fit and affordable housing so that they can move up and out of poverty into the mainstream of American life.

We work with 388 nonprofits in over 150 cities by providing loans, grants, and technical assistance. Enterprise works with groups to enlarge their capacity to provide low-income housing and help them build local partnerships. We provide nonprofits with loans at below market interest rates and offer predevelopment and acquisition financing. This working capital is otherwise difficult for nonprofits to obtain. We offer guidance on how to link human support services to those being housed. Enterprise also offers expertise in project financing, development and property management.

We recognize that each investment is not just a financial transaction, but an integral part of the physical and social fabric of a neighborhood. The net result of this activity is that through December 1993, The Enterprise Foundation has helped nonprofits make possible more than 36,341 new and rehabilitated units of housing for the poor and has invested almost one billion dollars of grants, loans, and equity with nonprofit housing producers, leveraging

several times that amount in total development costs.

Why housing? Why nonprofits?

The reason that The Enterprise Foundation has dedicated itself to the production of low-income housing is that we believe that housing is the essential platform for combatting all of the destructive effects of poverty. Decent and affordable housing is a first step, an essential beginning to transforming the disgraceful, deteriorated, and violent conditions scarring our cities. Decent and affordable housing gives families dignity, self-respect, and the ability to improve their circumstances. Housing is not the solution to poverty in and of itself, but without a safe and healthy place to live, a family cannot begin to deal with the interlocking and complex problems plaguing it.

Over the past decade, the nonprofit housing industry has expanded significantly both in production capacity and in sophistication. Nonprofit housing groups can now be found in all fifty states, in urban and rural areas from Portland, Maine to Portland, Oregon. Although there is no precise count, it is estimated that there are 3000-5000 community-based nonprofits working on low-income housing. Collectively, nonprofits have renovated hundreds of thousands of homes and apartments for low-income Americans.

Community-based nonprofits are sensitive to the unique needs of their local neighborhoods and their sustained commitment to the community makes them especially suited to undertake community development activities. In general, nonprofits work in areas largely neglected or abandoned by the for-profit sector for various reasons, such as: the need to link social services to the housing, the small scale of the housing development, or declining real estate values. Nonprofits have a different set of incentives and thus can do the work no one else wants to take on.

Nonprofits use a wide range of tools including the Low Income Housing Tax Credit, the HOME program, the Affordable Housing Program run by the Federal Home Loan Banks, CDBG funds, the RTC's Affordable Housing Program, the HOPE 3 program, state and local housing programs, and funds supplied by charitable foundations or religious institutions. We are hopeful that the recently enacted multifamily property disposition program will help nonprofits acquire, rehabilitate, and manage some properties currently languishing in the FHA inventory to create a permanent housing resource for low-income Americans. We believe your efforts on that legislation will yield good results.

Thanks to the hard work of the Congress in recent years and the new leadership at HUD, the tools that nonprofits need are largely in place. What needs to be done is to streamline and improve the system we have. Your task as you reauthorize federal housing programs is to build on what works in the current system and clear out impediments. Nonprofits play an important role in the current system, and can be made a more effective force to rebuild our communities if some improvements are made in the existing programs

and policies.

It is both a strength and a weakness of the nonprofit movement that these groups are not exclusively dependent on any one funding source. On the one hand, nonprofits are firmly rooted in their communities and are able to tailor their programs to meet unique local needs. Having access to many different funding sources can help nonprofits be flexible and create effective local solutions. It is unlikely that a monolithic federal program could be created that could meet communities' needs from Appalachia to Watts. On the other hand, the difficulties and uncertainties of working with many different programs which all have different income targeting, monitoring, and other requirements slows down nonprofit housing production and can raise costs.

Capacity building for nonprofits

One of the reasons that capacity building funding is essential for community-based nonprofits is the difficulties of working with the federal programs that nonprofits use. It takes a certain level of sophistication to create viable projects using several different funding streams. Capacity building is an unfortunate term because it sounds amorphous and vague. While this jargon is not the best, capacity building is actually a straightforward and tangible process. The purpose of capacity building is to create enduring institutions which will be a positive, stable force in their communities. Government support for capacity building creates viable entities which can then use a wide array of resources to carry out their public purpose. Thus, government funding is leveraged and multiplied with many other sources of funding to accomplish social goals.

Capacity building is an umbrella term which encompasses many different activities from financial support to technical assistance. The Enterprise Foundation does different sorts of capacity building activities depending on what a nonprofit needs. Nascent groups need advice on how to set up a board of directors, a business plan, an accounting system, and a fundraising plan. More seasoned groups need advice on how to increase their housing production by using innovative approaches. The Enterprise Foundation has had to meet different needs over the years as nonprofits have gotten more sophisticated.

Capacity building also includes funding operating expenses for nonprofits, which is often the most difficult money for nonprofits to raise. Administrative expenses are not appealing to funders, yet without funding for a project director, telephones, and a copier, a nonprofit can't build an SRO for the homeless. Paying operating expenses for a new nonprofit or a nonprofit that has not previously focused on housing can have great benefits for a community as an effective, vibrant force for positive change is created.

For example, in Columbus, Ohio, the Columbus Housing Partnership (an Enterprise affiliate which was set up to foster the work of Columbus' nonprofits) worked with St. Stephen's Community House to train its staff to be housing developers. St. Stephen's Community House had been a social work agency, with expertise about the social problems

in the community but no experience with housing. The Columbus Housing Partnership offered them technical assistance and operating support to hire one staff member and within one year, they had rehabilitated 24 units of housing on one street. The development, named Mwanza Place, met more than just housing needs because capacity building enabled a nonprofit who knew the neighborhood and its problems intimately to become an affordable housing provider. Mwanza Place provides a comprehensive, tenant-driven program of supportive services to its residents.

Portland, Oregon had only one productive nonprofit in 1990. Since then the Neighborhood Partnership Fund (a local umbrella group, similar to the Columbus Housing Partnership described above) has trained three existing nonprofits and four new ones. These seven emerging nonprofits have completed 56 units, have 74 units under construction, and have another 121 units in predevelopment. Once groups understand the development process, their production numbers grow quickly.

India Pierce, Director of Mt. Pleasant, NOW, part of the Cleveland Housing Network (CHN), is testifying before you today. When Enterprise started working with CHN in 1985, they were struggling each year to rehabilitate a dozen houses for very low income families, solely using CDBG funds. Today, CHN has celebrated the production of its 1000th house; is fully computerized; and has learned to use the Low Income Housing Tax Credit and attract private financing as well continuing to use CDBG. CHN is an essential part of Cleveland's plans for its future.

There are many more examples like these from our work. Funding for capacity building should not be seen as an alternative to funding the construction of units of affordable housing. **Capacity building leads to the production of units.**

Congress has effectively dealt with concerns that Community Housing Development Organizations (CHDOs) could become unduly dependent on operating support from the HOME program. As you know, local jurisdictions may allocate up to 5% of their HOME allocation for operating support to CHDOs, and CHDOs may receive 50% of their budget in HOME operating support or \$50,000, whichever is greater. This provision allows small CHDOs to get enough funding to hire staff, but it prevents larger CHDOs from being completely dependent on HOME operating support. In addition, there is accountability at the local level for the choices made in which groups get operating support.

Operating support for the right nonprofits is a very effective federal investment. The Department of Housing and Urban Development ought to do everything it can to encourage local jurisdictions to spend the full 5% allowed under HOME for nonprofit operating support, or Congress could make such an action mandatory.

The Enterprise Foundation is also concerned that the operating support and technical assistance money under Section 233 of the HOME program has been delayed at HUD headquarters. Section 233 authorizes funding to provide technical assistance and pass-

through funds to qualified nonprofits. These resources have enabled the nonprofit system to respond effectively to the problems of the poorest and most distressed neighborhoods. National and statewide intermediaries that deliver Section 233 funds help to teach successful practices, develop the abilities of nascent or emerging nonprofits, and help the federal government to deliver funds where they are most needed and will do the most good. HUD should get this money out because nonprofits in the field are waiting to see if they can go ahead with their projects.

The operating support programs for nonprofits currently available all have specific restrictions and limitations. Section 233 funds and HOME operating support are only for CHDOs as defined in the HOME program. Operating support to nonprofits through the National Community Development Initiative is only available in 23 cities. For this reason, the Community Viability Fund which has been proposed by Secretary Cisneros is an exciting new initiative. The community-based nonprofit movement is a resource for our neighborhoods that merits a wise federal investment. Congress should set broad programmatic guidelines, and then grant the HUD Secretary the authority to fund promising community groups. This would give HUD the ability to be an effective partner in community-driven neighborhood revitalization initiatives. Most federal programs are oriented toward individual needs or specific projects, and this can make them difficult to use as part of a holistic, comprehensive strategy to rebuild a neighborhood. The Community Viability Fund could fill this gap, and HUD deserves tremendous credit for such innovation.

HOME

In addition to offering operating support, the HOME program has been a tremendous success for nonprofits. This Subcommittee has done a lot of work on the HOME program as part of the 1990 and 1992 housing reauthorization bills. As you know, the program originated from the recommendations of the National Housing Task Force in 1988 (co-chaired by Jim Rouse of The Enterprise Foundation) and was finally enacted in 1990 after a long and tortuous process that Congress participated in.

While the previous Administration's hostility to any housing production program stifled the HOME program initially and caused the funding to sit unspent, you have done a great deal to improve the program in the 1992 and 1993 housing bills. HOME as currently constituted is now an effective contributor to the supply of affordable housing. HOME allows communities to choose which mix of housing activities - rehabilitation, new construction, or tenant-based assistance -- best meets local needs. HOME can be the primary housing production program for the 1990s and beyond if it is funded at adequate levels.

The Administration's proposal to cut the funding for HOME this year is unfortunate. Secretary Cisneros and his staff have done a good job unleashing the potential of the HOME program. The consolidated regulations which were put out for comment last summer were much improved over earlier iterations. The HOME legislative changes which you just enacted make the program easier to use. Assistant Secretary Cuomo and his staff have done

a good job of publicizing the new and improved program.

All new programs have a rough start-up phase, and to destabilize the funding for the HOME program just as jurisdictions and nonprofits are learning to use it does not make sense. HUD's partners in the HOME program need to be able to depend on the federal government's commitment to fund housing production for low-income Americans. Creating affordable housing is a long-term process, and as local government officials and nonprofits plan their housing activities for next year, they should be able to count on stable funding levels for HOME.

HOME is working to leverage local government and private resources to create affordable housing in communities all across the country. According to HUD, 70% of the HOME funds are used for rehabilitation, 20.5% are used for new construction, 6.5% for acquisition, and 3% for rental assistance. More importantly, jurisdictions have exceeded the income targeting requirements in the statute, with 42.3% of the rental units built with HOME serving people with incomes below 30% of area median income and 25.9% of the homeowners assisted having incomes below 30% of median.

Sixty-six percent of the rental units built with HOME serve Americans with incomes below 50% of median and 62.3% of homeowners assisted with HOME have incomes below 50% of median. All totaled, as of March 31, \$1,075,713,732 in HOME funds have been committed and leveraged with an additional \$1,440,412,148 in other funds for a total of \$2,516,125,880 committed to HOME projects.

Let me make these numbers more real for you. Here are some examples of HOME projects that groups affiliated with Enterprise have built:

- The Cleveland Housing Network is completing a project of 180 units scattered around the city which, because of \$2.5 million in HOME funds, can be leased to families earning less than 35% of area median income. Rents for this project will range from \$160 to \$210 per month for one to four bedroom units.

- Charleston Affordable Housing in Charleston, South Carolina has built a 10 unit, scattered site rental project offering an array of supportive services to homeless single parents with children. The project was financed with a \$125,000 HOME grant, CDBG, a Federal Home Loan Bank grant, and a loan from First Federal.

- In New York City, El Barrio's Operation Fight Back is developing the 77 unit El Barrio Renaissance Apartments to serve persons with special needs, including the homeless. Financing for the \$7 million development includes \$3.6 million in city HOME funds available for construction financing and then upon completion of the construction, these funds will be converted to a second mortgage. The rest of the debt financing for the project will come from New York City's Housing and Preservation Department. Low Income Housing Tax Credits will be used to provide the equity to complete the financing.

■ Topeka City Homes of Topeka, Kansas is acquiring and rehabilitating 57 vacant, single-family homes to rent to very low income families. The city awarded the nonprofit \$780,000 in HOME funds for soft second mortgages which are deferred and carry no interest. Topeka City Homes is averaging total development costs of \$29,000 per unit, yielding rents of \$253 per month.

■ In Marietta, Georgia, Progressive Redevelopment, Inc. and Cornerstone Housing Corporation (an Enterprise subsidiary) are using \$715,000 in HOME funds loaned at 3% by the Georgia State Housing Finance Agency to buy the 112 unit Country Pines Apartments from Freddie Mac's multifamily portfolio. All of the units will serve families below 60% of median income and half of the units will be for families below 50% of median. Progressive Redevelopment will manage the property and offer social services to the residents.

All of these projects show HOME working as Congress intended. HOME funds are used to leverage many other sources of funds to make scarce federal dollars go further to serve very poor people. HOME projects vary widely depending on local housing markets, which is exactly as it should be. Local partnerships are formed to meet identified local housing needs.

There probably are further legislative refinements which could be made to the HOME program, but I recommend to this Subcommittee that you make a priority of urging your colleagues on the Appropriations Committee to fund this program at least at last year's funding level. This year, adequate funding for HOME is more important than perfecting amendments.

Other financing tools

The Low Income Housing Tax Credit

HOME is not the only program that nonprofit housing developers use. The Low Income Housing Tax Credit has been one of the most important tools available for nonprofit organizations to develop rental housing. The Tax Credit encourages corporations to invest in the acquisition, rehabilitation and construction of low-income rental properties by providing tax benefits to investors. The equity that can be raised with Tax Credits typically finances about one-third of the total development cost of a low-income rental project.

Obtaining loans from private financial institutions for Tax Credit projects continually proves to be a challenge for nonprofit housing sponsors. In many communities where Enterprise works, lenders are only willing to make mortgage loans for periods as short as five to ten years, or else they are not willing to lend at all. Because multifamily lending tends to be unconventional, and there is no clear standard for underwriting, banks frequently assume that such lending is too complicated and too risky to undertake. In reality, multifamily lending can be a profitable activity.

In an effort to meet the need for mortgage financing for the development of affordable multifamily housing nationwide, Fannie Mae and Enterprise recently announced the formation of Enterprise Mortgage Investments, Inc. (EMI), a new organization that will serve as a community lender to provide mortgage financing to community-based housing organizations. Fannie Mae has committed \$150 million to EMI's lending program, which will offer developers first mortgages on multifamily rental properties that qualify for the Low Income Housing Tax Credit.

EMI's lending program is aimed at streamlining development financing and minimizing charges to nonprofit, community-based developers. EMI is designed to provide mortgage loans to entities that may not have access to other sources of mortgage financing or to provide permanent financing in conjunction with existing mortgage sources -- such as commercial banks and bank consortia -- that would prefer to limit their affordable multifamily financing activities to short-term construction loans.

There are other areas on which the federal government should focus to expand the delivery of affordable multifamily housing:

Improved CRA Enforcement

The very existence of EMI should be seen as an illustration of the unwillingness of many banks to lend on multifamily projects. It is one example of why the Community Reinvestment Act (CRA) has been tremendously important to the work of community-based nonprofit organizations across the country. The obligation that a bank must help meet the credit needs of its entire community is an essential building block of any community redevelopment strategy. Often when banks are reluctant to engage in affordable housing activities independently, CRA spurs bank investments in Low Income Housing Tax Credit projects, bank participation in lending consortia, and bank lending on affordable multifamily housing development.

While there have been some improvements, we believe that the federal regulatory agencies and the congressional banking committees should continue to play active roles in ensuring that financial institutions comply with the community reinvestment law. Enterprise is generally supportive of the new proposed regulations that were issued to improve enforcement of CRA, though we do have strong concerns about some of the proposed revisions.

In our work throughout the country, we have used CRA as a tool to bring financial institutions into local alliances with nonprofit organizations and local governments to address community needs. Building banking consortia to provide financial support for affordable housing has been an effective means to achieve this goal. For example, the Dallas Affordable Housing Partnership, which Enterprise helped establish in 1991, is a loan consortium comprised of eight commercial banks and Fannie Mae, and operates with support

from local government. The Partnership supports affordable housing in two ways. The financial institutions provide mortgages to low-income, first-time homebuyers participating in Enterprise's homeownership program in Dallas. And, through its multifamily loan program, the consortium will provide funds for the acquisition, rehabilitation and construction of rental housing for low-income families.

Until private lending institutions are able to increase their participation in affordable rental housing and community development activities, it will be difficult to reverse the blighted conditions in our nation's cities. We hope that the members of this subcommittee and your colleagues in the regulatory agencies will continue to make CRA a tool that can deliver these resources.

HUD's multifamily finance initiatives

The private sector will never be able to provide some types of financing on its own, and thus HUD's efforts to form partnerships are constructive. For example, HUD is working to become a partner with pension funds through the recently authorized Section 8 Community Investment Demonstration Program, with housing finance agencies through the Risk Sharing Pilot Program, and with foundations through the National Community Development Initiative. In this manner, HUD is making state, local and private sector entities major players in federal housing and community development activities. Enhanced commitment from other participants is essential to creating a stable and productive multifamily financing system.

More needs to be done to make FHA itself an effective force in the housing finance arena. With extraordinarily long processing periods, cumbersome paperwork, and difficulty in finding financial institutions that will make FHA insured loans, FHA has become too unwieldy for most productive nonprofit developers. This is unfortunate because FHA could fulfill an important niche in the multifamily finance system. Without adequate insurance or other credit enhancements, banks are given greater incentive to shy away from affordable housing lending.

In cities in which Enterprise works that have non-federal multifamily insurance or credit enhancements available, nonprofit developers' success and productivity stands in stark contrast to those in cities without such resources. For example, Enterprise's New York City program has been very successful because of the state and city's long-standing commitment to developing low-income housing. In our New York program's first year (1987), we were able to assist in the development of 1,000 units of housing because a bridge lender could insure its short-term loans through New York City's Real Estate Mortgage Insurance Corporation (REMIC). Without this insurance tool, in addition to New York State's mortgage insurance products, multifamily lending in New York would be vastly reduced.

HUD should be commended for its work on improving single family insurance programs. Recently announced changes to reduce the up-front premiums on single family

FHA insurance and to streamline the 203(K) program for purchase and rehabilitation of single family homes demonstrates the Office of Housing's commitment to making FHA a viable tool for low- and moderate-income homebuyers. We are hopeful that any housing reauthorization legislation advanced by the housing subcommittee will result in improved multifamily insurance programs as well.

Expanded Secondary Market Activity

The interdependent nature of the housing finance system makes it inevitable that whatever the secondary market, or more specifically Fannie Mae and Freddie Mac, are doing dictates the actions of other system participants. Because lending institutions benefit from their ability to sell loans they have originated to the secondary market, lenders are likely to originate only what they can sell in exchange for more liquidity.

The secondary market revolutionized single family mortgage lending by encouraging the creation of a standardized mortgage loan and allowing lenders to make mortgage loans in much higher volumes. According to the National Task Force on Financing Affordable Housing, there is a direct correlation between the growth of the single family secondary mortgage market, which has virtually developed over the past thirty years, and the health of the single family lending industry. The Task Force report explains, "In 1972, only \$27 billion of one-to-four family mortgages were sold to the secondary market; in 1990, that number had reached an annual volume of \$405 billion. As a result, there is now a large, stable, and relatively inexpensive source of private capital to finance single-family mortgages, which has endured despite the economic and tax cycles of the 1980s".

Although single family housing and multifamily housing are two distinct products, it is important to apply the broad lessons we have learned from single family housing activity to the multifamily finance system. In this respect, there is an obvious need to create a more viable secondary market for multifamily housing. It is essential for Fannie Mae and Freddie Mac to expand their purchases of multifamily mortgage loans and to serve other mortgage originators and nontraditional homebuyers. Fannie Mae recently announced its intention to do just that as part of its trillion dollar goal by the year 2000.

We encourage the Subcommittee to oversee the implementation of and compliance with the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, and to utilize the knowledge and resources of the GSEs to fulfill the goals of federal housing policy. We commend Fannie Mae for its very aggressive initiative in low income housing and both Fannie Mae and Freddie Mac for exceeding their low- and moderate-income mortgage purchase goals 1993 and increasing their central city activity. However, more can be done, particularly among minority homebuyers. Statistics show only a small amount of secondary market mortgage purchases are those of African-American or Hispanic borrowers.

In addition, Representative Barney Frank's legislation, the Community Mortgage Capital Availability Act is a useful step. This legislation, which was favorably reported by

the House Committee on Banking, Finance and Urban Affairs, has not yet become law. This bill proposes to streamline the regulation of the issuance and trading of commercial mortgage-backed securities, and therefore create a stronger and more liquid secondary market for multifamily housing finance. We believe attention to making this system more viable will have tangible and significant benefits for community-based nonprofit housing providers.

The Federal Home Loan Bank System's Affordable Housing Program

Finally, as this subcommittee begins the reauthorization process, we would like to remark on the important role that the Federal Home Loan Bank System's Affordable Housing Program (AHP) plays in the work of community-based nonprofits. In our work with nonprofit housing organizations, we see a wide variety of financial packages that are assembled to produce quality low-income housing. A great many of these projects receive funding from the AHP. Enterprise staff has been told by members of our network that the AHP "works the way HUD programs should work" in that it is flexible, responds to local needs, and is easy to use.

Because of the tremendous benefits of this program, Enterprise has an interest in seeing that the statutory membership requirements of the Bank System allow for broad participation from as many potential lending institutions as possible. While nonprofits can benefit enormously from the AHP, in some communities, especially in the Southwestern part of the country, it is difficult to find members of the Bank System through which they can apply for AHP funds. Further, the more assets the Bank System can generate, the higher the dollar volume that is available for AHP project funding. Expanded membership would raise these numbers.

Additionally, we believe that the Regional Federal Home Loan Banks can play a very important role in providing technical assistance to member financial institutions in community lending. In the past, the Regional Banks have worked with System members to teach them how to fulfill CRA obligations, and to provide such services as first-time homebuyer programs and homeownership counseling. If Congress considers legislation to remodel the Federal Home Loan Bank System, we would encourage the housing subcommittee to recognize the immense value of the AHP and to strengthen and formalize the role of the Regional Banks as technical assistance providers.

Sandtown-Winchester

Let me conclude by observing that all of these affordable housing problems and programs exist in the larger context of deteriorating social conditions in thousands of neighborhoods across the country. Homelessness, joblessness, violence, crime, drugs, inadequate schools, lack of health care, all leave their dreadful mark on communities. It was Enterprise Founder Chairman Jim Rouse's concern about the downward spiral of conditions in the neighborhoods where we work that led The Enterprise Foundation to agree to participate in a unique partnership with Baltimore Mayor Kurt Schmoke and the residents of

a West Baltimore neighborhood called Sandtown-Winchester.

Sandtown-Winchester is a 72 square block neighborhood with just over 10,000 residents, 99% of whom are African-American. The social realities and conditions in Sandtown are similar to those in many other inner city neighborhoods:

- Half the residents live in poverty.
- Five out of six poor children live in single parent households headed by women. Ninety percent of births are to unmarried women.
- Almost three quarters of the housing stock is substandard. More than 670 vacant buildings are scattered throughout the neighborhood.
- Nearly half of the residents who can work are unemployed; an equal number are on public assistance.
- Students in neighborhood schools consistently perform well below state standards. Only 43% of Sandtown residents age 25 or older have completed high school.
- Armed robberies and rape occur at five times the rate in middle-income Baltimore neighborhoods. Drugs and crime are epidemic.
- Too many residents die of preventable and treatable diseases. Two and a half times as many Sandtown residents died of pneumonia and influenza in 1989 as in the rest of Baltimore; the rate of HIV infection is nearly twice that of the rest of the city.

Community Building in Partnership (CBP) was initiated in February of 1990 by Mayor Schmoke with a directive to develop a program to totally transform all of the conditions cited above for the benefit of existing residents. The basic principle of this program is that **we do know what works**. Across the country, the know-how and capacity exist to make basic support systems work. Thousands of units of housing have been made decent and affordable for the lowest income people; inner city schools have produced high-achieving students; job training programs have helped the unskilled find work; prenatal care has helped even the poorest mothers have healthy babies.

Yet these efforts are so often isolated from one another. The lessons of these successes need to be applied in a comprehensive fashion over a sustained period of time to show that the quality of life in neighborhoods at the bottom of the economic scale can be literally transformed. The purpose of Community Building in Partnership is to transform all of the dysfunctional conditions and systems -- from housing, education, health care, and employment, to human services, business development, and public safety -- to enable all residents to achieve their highest potential.

The thinking behind Community Building in Partnership -- that a holistic, comprehensive, community-driven approach is the only way to address the complex and intertwined problems that plague poor communities -- is similar to the thinking behind the Empowerment Zones program and Assistant Secretary Cuomo's work to consolidate the planning requirements for the programs under his control.

After Sandtown residents participated in an eight month process to identify the neighborhood's most pressing needs and develop a vision of the transformation they wanted to see, work began on projects in eight areas: physical development, health care, education, family development, substance abuse, public safety, community pride and spirit, and employment/community economic development.

Mayor Schmoke's office, The Enterprise Foundation, and the neighborhood residents have worked together under the umbrella of a nonprofit, Community Building in Partnership, Inc. to implement the plan developed by the residents of the neighborhood. To date they have implemented over 80 projects to address immediate needs in the neighborhood and to lay building blocks for longer term systems change. These projects range from a 227-unit new townhouse project using HUD Nehemiah funds, to a door to door outreach program to provide prenatal care to all pregnant women, to the recruitment of over 100 block captains for Block Watch and Neighborhood Watch programs.

In general, most federal, state or city programs are not designed to be used together as part of a comprehensive strategy and it is a slow process to bring them together to transform a neighborhood. As you work on the housing reauthorization bill, I encourage you to think about housing programs in the larger context of the neighborhoods where they operate. Focus on how housing can be a piece of a broader strategy that simultaneously attacks all the dysfunctional systems at once. This means making programs flexible and responsive to local conditions.

It is not right that a wealthy nation should abandon its poorest neighborhoods -- urban and rural -- with a shrug that nothing can be done. We know what needs to be done. Every day, community-based nonprofits, city governments, churches, hospitals, and private businesses participate in a wide variety of projects that are working to turn lives around. What these local partners need is adequate funding from the federal government, and the ability to tailor programs to unique local conditions.

We look forward to working with you on these issues, and thank you for the opportunity to testify.

Questions for Bart Harvey from Chairman Gonzalez

1. Do Enterprise and LISC require that the CDCs that they support ever become self sufficient or will local CDCs always require operational or administrative support from either the Federal government, LISC or Enterprise, or other funders?
2. Although I do not know the reason that Assistant Secretary Cuomo is holding up the CHDO technical assistance funds, it may have something to do with coordinating the various pots of money. Would it not be easier for your organizations to have one source of technical assistance or capacity building funds than the many that are available, each with different time lines and application requirements?
3. Under the HOME program, there is a requirement that CHDOs own or sponsor any project for which it receives set-aside funds. In some areas of the country, particularly rural areas, where development may be scattered, this may preclude use of the CHDO funds even if there eligible CHDOs. Would there be any objection to permitting CHDOs to administer housing programs such as owner occupied housing rehabilitation programs where the CHDO would not own the housing, but where the CHAS indicates that this is the legitimate housing need in the area?
4. There have often been criticisms of the trend toward nonprofit and CDC development and capacity building as being in competition with public agencies, like public housing agencies, or private for profit developers. Do your organizations have strategies for working with local and state governments and their agencies, establishing partnerships? How do you counter that criticism?
5. What criteria do your organizations employ when selecting geographic areas in which to concentrate your efforts, other than the potential of organizing CDCs or nonprofits that will be viable? On what bases would you rule out localities?
6. Your comments about CRA and HMDA prompt me to ask the following questions even though as you point out neither law is under the jurisdiction of the Subcommittee. What recommendations would you offer to conventional lenders and the secondary market so that affordable housing and revitalization of distressed areas become a regular rather than excepted part of their business? How do we get to the point that such investment is not considered overly risky or does not present exceptional risk?
7. As you know the President signed into law the Multifamily Housing Property Disposition Reform Act of 1994. Do you foresee investing your funds in support of purchasing some of these buildings or mortgages?

(Mr. Harvey's responses)

**Questions for the record from Congressman Henry B. Gonzalez
Response from The Enterprise Foundation**

1.) Do Enterprise and LISC require that the CDCs that they support ever become self-sufficient, or will local CDCs always require operational or administrative support from either the federal government, LISC or Enterprise, or other funders?

No, we do not require CDCs to become self-sufficient, but we do work with them to be self-supporting. We encourage CDCs to develop diversified sources of funding and to earn fees for their work. However, under current housing programs, it is difficult for nonprofits to become totally self-sufficient.

Nonprofits are working in markets that are not attractive to the private sector because development in these areas simply isn't profitable. While CDCs can certainly earn fees from development or property management and should be encouraged to do so, often development fees need to be plowed back into the project because of insufficient financing, difficult property management issues, or the need to provide supportive services with the housing. The nature of the markets where nonprofits work and objections from some quarters to nonprofits earning big developer fees necessitates operating support from some source for most nonprofits.

There is nothing wrong with a nonprofit getting operating support from the federal government, The Enterprise Foundation, or anyone else if that nonprofit is an effective low-income housing producer. The appropriate policy concern is if nonprofits receive operating support and capacity building assistance and never produce anything.

2.) Although I do not know the reason that Assistant Secretary Cuomo is holding up the CHDO technical assistance funds, it may have something to do with coordinating the various pots of money. Would it not be easier for your organization to have one source of technical assistance or capacity building funds than the many that are available, each with different time lines and application requirements?

Assistant Secretary Cuomo has proposed merging several of the technical assistance pots currently available and publishing a "super NoFA" that makes technical assistance available under HOME, CDBG, and the supportive housing programs all together. TA providers can apply to do technical assistance under one, two, or all three programs depending on their expertise. This approach makes sense to us because it will be easier for TA providers to do holistic work in cities. Housing problems cut across program boundaries, and a more flexible technical assistance program will foster more comprehensive local solutions. We are hopeful that CPD will get this NoFA out as fast as possible, but we're encouraged by the policy direction they're taking on this.

3.) Under the HOME program, there is a requirement that CHDOs own or sponsor any project for which it receives set-aside funds. In some areas of the country, particularly rural areas, where development may be scattered, this may preclude use of the CHDO funds even if there are eligible CHDOs. Would there be any objection to

permitting CHDOs to administer programs such as owner occupied housing rehabilitation programs where the CHDO would not own the housing, but where the CHAS indicated that this is the legitimate housing need in the area?

As long as the activity is consistent with the CHAS and the CHDO is actively involved with the project, we see no reason to object.

4.) There have often been criticisms of the trend toward nonprofit and CDC development and capacity building as being in competition with public agencies like public housing agencies, or private for-profit developers. Do your organizations have strategies for working with state and local governments and their agencies establishing partnerships? How do you counter that criticism?

Nonprofit housing development should complement other local initiatives, not compete. Enterprise always works in partnership with local housing actors, including local governments. We have found that successful local housing delivery systems can only be developed if local government is a strong partner. The NCDI program allows us to work directly with local governments in defining local needs and implementing housing strategies. Additionally, Enterprise is offering assistance in preparing Empowerment Zone applications in a number of cities, including Baltimore, St. Louis, and York, PA. Last year, we published a compendium of state CHAS programs which was distributed to local governments throughout the country.

There is a unique market niche for nonprofit housing developers that differs from public housing or private development. Nonprofits are more often community-based, and can represent community interests, thus fostering community support for affordable housing rather than a "NIMBY" reaction. These community-based developers, as neighborhood residents, have a personal stake in upgrading their neighborhoods by improving the housing stock and staying there for the long haul. Nonprofits can increase the resources available for low-income housing by raising funds from private philanthropies and corporations. This complements and reinforces the government's investment in public housing and Section 8. Nonprofit developers don't provide direct competition to for-profit developers because their goals are different. Nonprofits' primary goal is to provide housing and social services in areas that are not served by the for-profit sector.

5. What criteria do your organizations employ when selecting geographic areas in which to concentrate your efforts, other than the potential of organizing CDCs or nonprofits that will be viable? On what basis would you rule out localities?

In general, Enterprise works in cities where we've been invited in by the local government or another local institution. Enterprise works only where its efforts can lead to a lasting and significant change in the local low-income housing development system. There must be a local commitment to seriously addressing housing needs, especially from the local government. We seek opportunities where we can innovate, creating "model" programs that can be replicated elsewhere. We also need to know that our efforts can lead to significant production in housing and community development.

Our programs vary a great deal in cities across the country, depending on the local actors and their commitment to affordable housing. We'll work with whichever local partners make the most sense for our mission to increase the supply of affordable housing.

We would rule out an area that had no significant concentration of poverty or where there was absolutely no local commitment to serving the housing needs of low-income Americans.

6. Your comments about CRA and HMDA prompt me to ask the following questions even though as you point out, neither law is under the jurisdiction of the Subcommittee. What recommendations would you offer to conventional lenders and the secondary market so that affordable housing and revitalization of distressed areas become a regular rather than excepted part of their business? How do we get to the point that such investment is not considered overly risky or does not present exceptional risk?

Enterprise believes that the federal government can be an effective catalyst to get the private sector more involved in low-income multifamily lending by establishing this line of business activity as a federal priority. In this effort, intermediary organizations can facilitate the process by providing technical assistance to both lenders and developers.

With permanent extension of the Low Income Housing Tax Credit, private sector investors have become very interested in multifamily housing and there is far more equity available for such activity than there has been in the past. The challenge is to get private sector lenders to provide debt financing.

One of the most important ways to get private lenders to make multifamily loans is the existence of an active secondary market for these loans. The federal government needs to take an active role in getting Fannie Mae and Freddie Mac more involved in the purchase and securitization of multifamily loans. Financial institutions, in general, are no longer willing to be portfolio lenders, and their lending patterns are therefore directed by what can be sold in the secondary market. According to Judy Reed, the president of the Washington Community Reinvestment Association:

"...it is nearly impossible to sell a long-term, fixed-rate mortgage made at a concessionary interest rate, on a building that has low-income tenants, multi-level funding sources, and a loan balance of less than \$1 to \$2 million.....I am accumulating a portfolio of \$20 to \$30 million in affordable housing loans that I may never be able to sell."

We believe the Housing Subcommittee should oversee the enforcement of the low income housing goals for the GSEs and encourage Fannie Mae and Freddie Mac to purchase multifamily loans, especially on projects with federal subsidies such as HOME or CDBG. Fannie Mae has already made great strides in this area. A secondary market for multifamily loans would have an enormous impact on lending activity for affordable multifamily housing development.

In addition, the Federal Home Loan Bank System can play a leadership role in teaching member institutions how to conduct community lending activities. Through the AHP, member institutions gain some of their initial experience in affordable housing lending, and the Regional bank staff is typically involved in facilitating this activity. We have been told by FHLB staff that once member institutions gain experience and confidence in low-income lending through the AHP, they typically increase their overall performance in this area.

It is our understanding that HUD and Treasury will send to Congress jointly drafted legislation regarding the Federal Home Loan Bank System within the coming year. With HUD's involvement, we encourage the housing subcommittee to take an active role in this debate and ensure that the housing component of the system gets as much attention as possible. In this respect, we support allowing broader membership into the system so as to increase the number of member institutions through which AHP loans and grants can be made. Finding qualified members through which to participate can be quite a challenge to nonprofits, especially in states like Texas where there are far fewer savings and loans.

7.) As you know, the President signed into law the Multifamily Property Disposition Reform Act of 1994. Do you foresee investing your funds in support of purchasing some of these buildings or mortgages?

Yes, Enterprise is likely to invest its funds in support of purchasing property from HUD's multifamily inventory. We have already made one investment of this nature, and we expect more funding requests to come in as HUD's sales procedure becomes more flexible. Not only is it important to help HUD get these properties out of its inventory, but a crucial component of neighborhood revitalization strategies is to purchase and rehabilitate these blighted, neglected properties.

Over the past couple of years, Enterprise has worked with Jubilee Enterprise of Greater Washington, a local nonprofit housing developer, to help the residents of the Trenton Park Apartments purchase their own property from HUD. Trenton Park is a 259-unit complex in Anacostia that had fallen into disrepair, and then into the HUD inventory in November 1991. With Jubilee Enterprise's assistance, the new Trenton Park Corporation has acquired the complex using NCDI grants disbursed by Enterprise and several other sources of funding including an AHP grant. NCDI funds were used specifically to train and hire staff as well as to support some of the property's rehabilitation costs. This model of creating resident-controlled neighborhood corporations to acquire distressed multifamily housing will be replicated by Jubilee Enterprise of Greater Washington at other Southeast Washington properties.

Additionally, three years ago Enterprise created Cornerstone, a nonprofit organization created for the purpose of acquiring, rehabilitating and managing existing low-income multifamily housing. Fannie Mae assisted in the creation of Cornerstone by providing a line of credit. Cornerstone specifically seeks out properties from such portfolios as HUD's, the RTC's, and Freddie Mac's. Cornerstone is very interested in purchasing assets from HUD's multifamily inventory and has submitted a proposal to HUD describing bulk sale

arrangements in which Cornerstone would like to participate.

Finally, Enterprise has strong relationships with community-based nonprofit developers in many of the cities with the largest inventories of HUD-owned and foreclosed projects. These cities include St. Louis, Dallas, New York, San Antonio, Atlanta, Baltimore and Denver. When HUD is in full compliance with the Multifamily Housing Property Disposition Reform Act of 1994, we expect to see purchases of HUD-owned properties become a more significant part of local revitalization strategies.

Statement of
India L. Pierce

Mt. Pleasant NOW Development Corporation
Cleveland, Ohio

before

The Subcommittee on Housing and Community Development
Committee on Banking, Finance and Urban Affairs

April 20, 1994

Chairman Gonzalez, and members of the subcommittee, it is with great honor that I sit before you today representing community development corporations (CDC'S), who like myself are committed to the revitalization of neighborhoods and communities around the country.

Mt. Pleasant NOW Development Corporation (MPN), is a community based organization that serves a constituency of 25,000 residents on the southeast side of Cleveland. MPN has only been in existence for five and a half years, we have grown from a staff of 4 that was producing 5 to 10 new and rehabilitated homes a year; administering free programs such as weatherization and exterior paint to a staff of 13 that now has:

- * Three new construction programs for lease and for sale that are targeted to low to moderate income families that will produce 115 new homes in our community over the next two year period;
- * Rehabilitation of over 40 once abandoned vacant, blighted properties that are now quality, affordable homes that have been leased or sold to families who otherwise would not be able to own or live in such a home;
- * Property management of over 60 units of housing;
- * Weatherized over 1,500 homes in the community and provided client education to teach low income families how to conserve on their energy bills;
- * Over 1,000 residents and tenants have benefited from the free exterior paint program;
- * Provided youth with summer employment working with Youth Opportunities Unlimited (YOU) to paint homes for the elderly;
- * Over 10,000 hours of the County's Court Community Service Program where offenders have worked in the community to serve their time;
- * Over 350 hours worked through Work Preparation Alternative (WPA) Program, which has helped unemployed general relief participants to receive benefits which and also helped some receive full-time jobs;
- * To administering the storefront renovation program, which the City only requires that 6 storefronts are to be completed in a two year period, MPN has 22

applications which are now either under construction, under development, or near completion in less than a two year period;

- * Began a merchants-business association, security patrol and micro-loan program for businesses;
- * Credit counseling & loan referral;
- * Commercial development activities such as the conversion of a property that MPN bought that was closed by the State Attorney General's office drug task force which will now become an 8,000 square foot health care facility for low income families;
- * Planning for a once viable two mile commercial corridor which now has over 50% vacancy is underway to create retail nodes, attract new businesses, help existing businesses, conversion of vacant storefronts to residential and demolition to create new housing and off street parking for existing structures;
- * AND in the next two months MPN will be the managing partners for the southeast side of Cleveland for the Industrial Retention and Expansion Initiative funded by the City, Foundations and Corporations in Cleveland.

Though we are just one of the many CDC's in Cleveland and it may sound like we have accomplished a lot, there is still much yet to be done. Not all groups can tell the same story since there are limited resources to help groups build the needed capacity to take on projects of scale and also be able to diversify enough to take on so many community and economic development activities.

What makes MPN unique is that we have been provided the technical assistance and capacity building mechanisms through local and national intermediaries such as Enterprise, LISC, and Neighborhood Progress, Inc.

The projects we are involved in are complex, multi-million dollar deals that involve public-private partnerships that require a level of competency, professionalism, and communications skill that go beyond the level of the community.

CDC'S in Cleveland have been very aggressive in their efforts to bring key stakeholders together to take on a number of complex projects. Most activities that take

place in the neighborhoods are a direct outgrowth of the non-profit organizations in the City.

CDC's are the preferred vehicle for delivery of projects in the Cleveland, because they learn their markets, they have learned to focus strategically in their communities, working with their Boards, local government, and lending institutions to focus on the needs of low income families and have created a dialogue that makes these partnerships work.

CDC's have the ability to leverage and have learned that people in the communities cannot be short changed on quality, programs must be planned for the long term versus using a bandaid approach that doesn't work.

The non-profit groups over the past five years has been successful in attracting more and more private developers to work in the City. These developers at one time would never consider working in inner city neighborhoods. CDC's have proven that there is a diverse market.

MPN has learned that you can't rebuild neighborhoods or city's with just poor people alone but you have to find ways to diversify activities to attract families, and businesses from all income levels in order to help stabilize a community.

In Cleveland CDC's are producing approximately 2,000 to 2,500 units of affordable housing each year from purchase rehab, for sale, lease purchase, multifamily, new construction lease purchase to new construction for sale. The cost of these activities is about \$120 million a year.

As an umbrella organization, Cleveland Housing Network (CHN) which has a membership of 12 neighborhood groups is the leading producer of low income housing in Cleveland and is looked at as a model around the country.

Just last year CHN had a celebration for completing it's 1,000th. house. This memorable occasion was monumental to all those involved but even of more importance is the number of lives that are affected by creating an environment for families that give them hope, and dreams to know they can do better and don't have to settle for anything.

CDC's are unique in that we are the voices of our community, we understand the problems, though we cannot address every socio-economic issue we have to work with federal, state, and local governments to find a way to

look at neighborhoods beyond just bricks and mortar but also to look at education, safety, health, and family development.

CDC'S have begun to look at their communities in a holistic manner so that we can plan strategically when doing affordable housing so that 15 to 20 years from now we will have pride knowing that we have not created more projects or low income housing that will run down a community but that we built off the assets of what we now have in our community and carefully plan so that the impact will be positive.

What is needed from the federal government to help us to be successful in our mission is increased public dollars for capacity building, operating support, dollars that can be used for predevelopment, soft second mortgages, downpayment assistance, etc. through CDBG, HOME, HOPE, Low Income Housing Tax Credits, Section 8, Headstart, etc.

We also need for federal policy of these programs to be more user friendly and flexible so that projects are not held up due to interpretation but geared to productivity, there needs to be more flexibility in program application such as LIHTC rental requirements, program requirements that limit mortgages and project financing.

HUD needs to have faster processing and sale of homes, lowering pricing of deteriorated homes to make projects more feasible for resale. Without taking into consideration the cost of rehabilitating these homes it forces projects to be less practical and they don't work.

Another problem area that CDC's need help is trying to find comprehensive strategies that work to do economic development, that works. The government can be helpful in structuring programs that help address these problems especially when we begin talking about creating jobs for neighborhood residents. The issue becomes where are the jobs?

In closing, I would like to say that CDC's have created an industry that with the necessary support mechanisms will have the capacity to raise their productivity linked with the efforts of stabilizing living and community conditions that create viable affordable housing, an overall healthy environment that through painstaking growth will create communities that are once again stable.

Thank you for this opportunity to express my concerns.

Questions for Ms. Pierce from Chairman Gonzalez

First, I want to commend you for both your testimony and your apparent successes.

1. Do you ever foresee the day when you will be self sustaining? If so how would you do so? •

2. Can you describe for the Subcommittee your relationships with the local governments and public agencies in Cleveland and New York? Aren't good relationships critical to your success?

3. It would seem that several sources of financing are still necessary for developing affordable housing. Can you comment further on this?

4. You have said that capacity building and operating funds are critical to your success. Would it be easier if you could concentrate on one source for that support rather than looking to intermediaries and a myriad of other programs and funding sources? Do you have to report to all your funding sources about your progress?

India Pierce's answers to Congressman Gonzalez' questions
April 20th Housing Subcommittee hearing

- 1.) Given the current structure of federal housing programs, it is difficult to imagine that Mt. Pleasant NOW's operations could be funded solely with development fees on projects. It is important for nonprofits to have diversified funding sources, and we are not exclusively dependent on any one entity for operating support. We receive operating support from CDBG and a local intermediary and we earn developers' fees on the projects we do.
- 2.) Our relationships with the Cleveland city government and the City Council are extremely important to the success of our program. We work together on a coordinated strategy to improve Cleveland's neighborhoods. Nonprofits who develop housing have to work constructively with local governments.
- 3.) We use several different sources of funding in all of the projects we do. We use funding from the state of Ohio, CDBG, HOME, the Low Income Housing Tax Credit, and predevelopment loans from LISC and The Enterprise Foundation. Complying with all of these different sets of program requirements raises the costs of affordable housing and slows down the development process. It would certainly be helpful if programs were simplified and made more consistent.
- 4.) The different sources of operating funds have different reporting requirements. Some require quarterly reports; other require monthly reports. It would be simpler if the same reports could be sent to all funders or if there were one source of operating support. On the other hand, it could be very risky to rely on only one source of operating support. The current system does have the advantage of allowing nonprofits to diversify their funding base and thus make it more stable.



NATIONAL ASSOCIATION
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April 6, 1994

The Honorable Henry Gonzalez
Chairman
Subcommittee on Housing and Community Development
Committee on Banking, Finance and Urban Affairs
U.S. House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

On behalf of the nearly 750,000 members of the NATIONAL ASSOCIATION OF REALTORS®, I am writing regarding the President's FY1995 Farmers Home Administration (FmHA) rural housing program appropriations request. The NATIONAL ASSOCIATION OF REALTORS® represents a wide variety of housing industry professionals committed to the development and preservation of the nation's housing stock and making it available to the widest range of potential homebuyers.

The FmHA housing programs represent the most important source of housing assistance for rural homebuyers and renters, and the NATIONAL ASSOCIATION OF REALTORS® commends the Subcommittee through your leadership to provide adequate resources to spur housing opportunities.

While the NATIONAL ASSOCIATION OF REALTORS® realizes that measures must be taken to reduce the federal deficit and limit costs to the Federal government, we believe it is imperative that sufficient federal assistance be preserved and program continuity be maintained under the FmHA housing programs to meet the overwhelming housing needs of our rural communities.

As the Subcommittee approaches consideration and prioritization of FY1995 FmHA program decisions, the NATIONAL ASSOCIATION OF REALTORS® welcomes the opportunity to share its concerns and comments regarding the Administration's proposed budget recommendations:



1. SECTION 502 GUARANTEED LOAN PROGRAM

The Section 502 guaranteed loan program has been instrumental in providing thousands of homeownership opportunities for moderate-income, rural homebuyers since its brief inception. Clearly, the annual increases in funding appropriations since the program's inception is strong Congressional acknowledgement that the relatively new guaranteed loan program is a success. The NATIONAL ASSOCIATION OF REALTORS® applauds the Subcommittee for providing critical funding assistance to meet the overwhelming demand for housing assistance, and we urge your support of the Administration's FY1995 budget recommendation of \$1.3 million to provide additional rural housing opportunities.

While the NATIONAL ASSOCIATION OF REALTORS® is pleased with the President's FY1995 Section 502 guaranteed loan program budget request, we are concerned with the proposal to charge a one percent user fee on FmHA single family loan guarantees to defray the costs of administering the program. The NATIONAL ASSOCIATION OF REALTORS® has traditionally opposed proposals that are designed to achieve fiscal and budgetary objectives at the expense of homebuyers. The NATIONAL ASSOCIATION OF REALTORS® has consistently maintained that the application of user fees have either increased the costs of housing to the homebuyer and/or discouraged their participation in the program.

The NATIONAL ASSOCIATION OF REALTORS® believes application of a one percent origination fee will not only increase the housing costs to prospective rural homebuyers but it will also discourage their future participation in the program. We are also concerned that the proposal will discourage participation by rural lenders who have adopted a "wait and see" approach regarding the viability of the program and the federal government's commitment to its success.

A principal feature of the FmHA guaranteed loan program is its affordability and consumer-friendly features. The program offers no down payment loans with reasonable closing costs to families earning less than 115 percent of the local area median income. According to FmHA, a typical borrower participating in the program is likely to be in his or her mid-to-late twenties, a first-time buyer with a loan approximately \$50,000, and earning a fixed income between \$20,000 and \$30,000 annually with very little cash reserves.

Whether the origination fee is applied as a downpayment cost or a portion of the closing costs, the rural borrower can expect a significant increase in out-of-pocket expenses to purchase a home under the program. The NATIONAL ASSOCIATION OF REALTORS® estimates the average costs to increase approximately \$400-\$600 and \$800-\$1000 in high cost areas.

Because the Federal National Mortgage Corporation (Fannie Mae) does not permit the financing of closing costs under the program, rural homebuyers who possess differing income and ownership characteristics than their metropolitan counterparts will

again confront a fundamental homeownership barrier that heretofore has hampered their home purchase: the inability to accumulate the necessary cash to pay downpayment or closing costs.

The NATIONAL ASSOCIATION OF REALTORS® is concerned that rural homebuyers will either opt for housing programs that offer financeable closing costs or forego homeownership because of the program change. Further, the loss of rural homebuyers from the guaranteed loan program will have a deleterious effect on the housing markets dependent on the program. These markets consist of communities where there is an insufficient availability of mortgage credit.

2. SECTION 502 DIRECT LOAN PROGRAM

The Section 502 direct loan program is the basic FmHA individual homeownership loan program that has consistently and successfully afforded housing opportunities to low- and very-low-income, rural homebuyers. The NATIONAL ASSOCIATION OF REALTORS® wholeheartedly welcomes the increased appropriations the Subcommittee committed to the program in Fiscal Year 1994 and, in conjunction with the guaranteed loan program, we urge your strong support of the President's FY1995 budget recommendation of \$1.8 billion to further increase housing unit production and reduce the backlog in assistance.

Of particular concern to the NATIONAL ASSOCIATION OF REALTORS®, though, is the President's FY1995 budget proposal recommending to increase the borrower's required contribution from 20 percent to 30 percent to conform the amount with other Federal housing standards. The NATIONAL ASSOCIATION OF REALTORS® believes the proposed change will create a financial hardship for many low-income families seeking homeownership and discourage their utilization of the program.

The proposed change will increase a borrower's payment of loan principal, interest, taxes, and insurance (PITI) adding cost burdens to a homeowner's total monthly housing costs. FmHA estimates that current program participants now pay approximately 33 percent of their income for PITI, utilities, and maintenance. The NATIONAL ASSOCIATION OF REALTORS® believes increasing the minimum required contribution to 30 percent will add another 20 percent of income to a homeowner's total monthly housing costs, in effect bringing the total cost of homeownership to almost 50 percent of income under the proposed change.

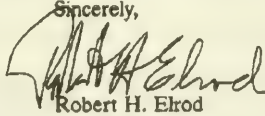
Further, because FmHA is not required to escrow taxes and insurance under the direct loan program, the NATIONAL ASSOCIATION OF REALTORS® believes increasing the contribution percentage may increase the potential for loan defaults by program borrowers when confronted with a crisis requiring difficult payment choices.

While the NATIONAL ASSOCIATION OF REALTORS® applauds the Administration's effort to ensure an effective, efficient, and responsive government that

"works better and costs less", the rationale for the proposed program change is somewhat flawed because its objective is to conform the borrower contribution standard of a homeownership program, in which the borrower must pay his/her own utility and maintenance costs, with rental assistance programs where the government subsidizes the difference between a renter's household income and their rent *plus* utilities.

In conclusion, the NATIONAL ASSOCIATION OF REALTORS® appreciates the opportunity to provide comment on the proposed program changes affecting the FmHA guaranteed and direct loan programs. The NATIONAL ASSOCIATION OF REALTORS® shares your commitment to promote and improve the availability and affordability of rural housing, and we pledge to continue our support of those efforts.

Sincerely,

A handwritten signature in dark ink, appearing to read "R. H. Elrod", written over a horizontal line.

Robert H. Elrod



Center for Community Change

March 15, 1994

Honorable Henry B. Gonzalez
Chairman, Committee on Banking, Finance and Urban Affairs
U. S. House of Representatives
2128 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Gonzalez:

The hearings you are holding this week on the HOME Investment Partnership Program are important so that the Congress can identify the successes in this program in expanding the production of permanent, affordable housing and identify problem areas for potential correction during the future hearings on your bill, H.R. 3838. Although the Center for Community Change will not be testifying at these hearings, we would like to share with you our thoughts and experiences with this program as one of the national intermediaries designated to provide technical assistance to community-based organizations in selected states. While our experience is not reflective of everyone's experiences, our conversations with other intermediaries have led us to believe that some observations are national in scope and therefore worthy of your attention.

Our experience has shown that the overall design of HOME is responsive to diverse local housing needs. Recent data released by HUD's CPD Office illustrates the success of this program. As of March 1, 1994, 71.7% of total project dollars committed under the HOME program had gone to the rehabilitation of existing units, which reflects the language in the enabling legislation. Even more impressive is the statistic that rental housing accounts for 60.8% of total HOME dollars committed. The majority of the units funded to-date have served families that fall below 50% of Area Median Income, the population most in need of housing assistance. Much of this success can be attributed to the participation of the nonprofit housing sector as a full partner in the complex process of producing affordable housing in both rural and urban areas. And, as you well know, many of these areas have not seen any new housing money in decades.

As you may recall, the enabling legislation set aside a minimum of 15% of HOME funds for nonprofit (Community Housing Development Organizations, or CHDOs) participation in the development of affordable housing. As an organization that assisted in creating that set-aside, we are grateful for that Congressional support as it has ensured that the development of affordable housing remains a community-driven process. In fact, several localities and states are going beyond the law and are

Honorable Henry B. Gonzalez
 March 15, 1994
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either allocating more than 15% of their funds for the non-profit sector or explicitly giving preference to CHDOs in their application process.

However, there are ways in which the CHDO program could be more effective and further increase the capacity of community-based groups to produce affordable housing. What follows is a summary of several specific issues which need to be addressed if the program is to become more effective.

The Role of the Participating Jurisdiction:

Within this program there is wide discretion allowed to the Participating Jurisdiction (PJ) in designing and implementing its HOME program. The PJ is responsible for establishing local housing priorities and developing a HOME program description that stipulates how HOME funds will be used to meet local housing needs. While the legislation calls for a partnership between local or state government and the nonprofit sector, the operational reality is that the PJ controls the program at the local level. There are only two restraints on the PJs in the law as it reads are: (1) 15% of the monies must be set aside for CHDOs; and, (2) The PJ has 24 months to reserve and commit monies, including the 15% set-aside, from the time HUD signs a HOME agreement with the PJ.

In order to commit the money within this 2-year time frame, the PJ must designate each CHDO or potential CHDO and the CHDO must have a viable project that is ready to go. Unfortunately, there are several PJs that have delayed the CHDO designation process. Even though the PJs are aware that the money must be committed within the 24 month period, several PJs have still not formally designated CHDOs as of 1994 for legislation enacted in 1990. This problem occurs in jurisdictions with many organizations which meet all the HOME criteria for CHDOs. In other instances, the PJ has been unable to tell the CHDOs and potential CHDOs when the RFP will be issued. No matter how prepared the CHDO, the CHDO's hands are tied until the PJ announces its designation process and issues an RFP for projects.

This problem is even more serious when one realizes that the PJ has total control over establishing the ways in which HOME dollars will be spent. For example, if a CHDO has a low-income rental housing project that is ready to go, the PJ can easily refuse to fund that project even though the nonprofit housing organization meets all the HOME criteria and the PJ has not allocated the funds. The legislation

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provides no recourse for a community-based housing organization that meets all the HOME CHDO criteria and is faced with a reluctant PJ. In fact, several PJs that have had no problem spending the 85% of their HOME allocation have told HUD they will be returning the 15% set-aside rather than allocate funds to CHDOs. These PJs continue to argue that they cannot find any CHDOs, but they refuse to use a portion of their allocation to build the capacity of groups interested in becoming CHDOs, something the law was very specific in stating was an allowable expense as the law was amended in 1992 to specifically allow a PJ to spend 20% of the set-aside funds (20% of 15%) on building the capacity of new CHDOs.

We would like to recommend that the Committee institute appropriate changes in the legislation to allow HUD to monitor the lack of compliance by PJs with the CHDO set-aside portion of the HOME program. This would give national recourse to CHDOs in jurisdictions where it has been difficult to become designated and/or funded.

Training and Technical Assistance for Participating Jurisdictions:

The law set-aside \$11 million in FY92 and increased this amount to \$22 million in FY94 for training and technical assistance for PJs. However, one of the biggest problems that community-based housing organizations face is the PJs lack of understanding about the HOME program. Sometimes PJs do not want low-income housing in their communities; or they do not want to develop the capacity of nonprofit housing sector in their communities; or, they have given scarce HOME dollars to organizations that are not accountable to the community and do not have the expertise to produce affordable housing. Other PJs do not like the program because they do not want to work with the HOME program because it is perceived as unduly complex and/or their staff is not trained to respond to assistance in the manner the HOME program requires. If the HOME program is to be effective, HUD must do a much better job in targeting the PJ training and technical assistance funds. It is unclear at this point if any monitoring exists and what, if any, are the rules and regulations governing the use of this technical assistance money.

We would like to recommend that the Committee institute appropriate changes (additional staff for HUD, tighter regulations for recipients, etc.) to ensure the integrity of the program. For example, if a PJ refuses to designate

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CHDOs within a reasonable period of time, the PJ should be penalized or a secondary designation system or appeals process should be created.

Matching Requirements:

This new housing partnership was intended to grow into a larger and more comprehensive housing program with responsibility shared at federal, state and local levels. We know that many local and state governments were adamantly opposed to the non-federal matching requirement. While Congress held firm and refused to waive the matching requirement for FY93, Congress did provide a series of steps to allow certain distressed communities to have their match requirement waived.

The HOME match provision was designed to ensure state and local commitment and responsiveness. It appears to some of us that many PJs are trying to avoid their obligation. Those responsible for administering the HOME program are requiring CHDOs to come up with the match requirement. By putting this onerous burden on the CHDO, the PJ creates a financially untenable situation. Often these are PJs with no other state or local source of housing funds. The CHDO can only turn to the private sector, and we know that the match provision is not meant to come from this source.

We recommend that the Committee provide requirements that the PJ receive training on the match requirement issue and clearly state its goals. The PJs should be prohibited from passing on the matching obligation to CHDOs.

Making CHDOs an Important Partner in the Production of Affordable Housing:

We have seen the proliferation of nonprofit housing development organizations throughout this country in the last 15 years. These groups have gone into desperately depressed areas and provided these neglected communities with opportunities to better their lives and living environments. Even in areas of the country that lag behind, nonprofit housing development groups have sprung up in response to the HOME program. The 15% set-aside for CHDOs has stimulated interest throughout the country and, indeed, in some areas has been the only stimulus. Groups that have not traditionally had housing as a major program area are now using HOME funds to develop their capacity to produce affordable housing.

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We recognize that the HOME program is complex, and that many organizations not only need to build their capacity to develop housing but also must have access to technical assistance and training. Over the past 16 months, the 28 nonprofit intermediary organizations funded under HUD's Section 233 program have identified over 410 CHDOs and potential CHDOs that are eligible for technical assistance and/or training. These intermediaries have identified many more groups that need technical assistance, and we commend the Committee and the Congress for recognizing this tremendous demand. By increasing the allocation for this program from \$14 million in FY92 to \$25 million in FY94, Congress has shown its commitment to the long-term growth of the nonprofit housing sector in this country.

We would recommend that you continue this important training and technical assistance set-aside to enable CHDOs to continue to be part of the vital housing development process.

Capacity Building and Operating Expenses:

The HOME program recognizes that the strength of the nonprofit housing sector varies throughout the country. To build the capacity of newer organizations and/or create new CHDOs, the statute allows each PJ to set aside monies for this purpose. However, very few PJs are using their HOME dollars to achieve this goal. In fact, it is often the PJs without any strong CHDOs that have been unwilling to use their HOME dollars for capacity building and/or operating expenses. Both the law and the regulations make every effort to implement this important component of the HOME program. For example, in its regulations HUD clarified that CHDO operating expenses do not need to be matched.

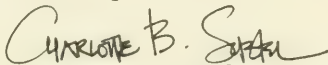
We would urge the Committee to address the issue of how to get these PJs to be responsive to the statute and maximize nonprofit participation in the program. Only by doing so will the capacity building continue for nonprofit developers.

While we realize that many of these suggestions are technical in nature, they do affect the production capacity of the program. Your vision was so critical in obtaining this much needed legislation that we offer these comments to you in the vein of assistance in improving upon a program that is already successful.

Honorable Henry B. Gonzalez
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Thank you for your attention to our comments. Please feel free to contact me should you require any additional information. As always, I stand ready to assist you in any manner possible.

Sincerely,



Charlotte B. Sobel
 Housing Development Specialist
 CENTER FOR COMMUNITY CHANGE
 1000 Wisconsin Ave., N.W.
 Washington, D.C. 20007
 202/342-0594

APPENDIX

April 26, 1994

CHAIRMAN HENRY B. GONZALEZ
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT

HEARING ON H.R. 3838
APRIL 26, 1994

This is the sixth hearing in series of hearings on H.R. 3838, the "Housing and Community Development Act of 1994" which reauthorizes the federal housing and community development programs for fiscal years 1995 and 1996. The focus of the hearing today is the Stewart B. McKinney Homeless Assistance programs administered by the Department of Housing and Urban Development and the Federal Emergency Management Agency, and the supportive housing programs for the elderly, persons with disabilities and persons with AIDS.

While the economy has steadily improved in the past months, we, here in Congress, cannot forget that the social ills of our society do not necessarily disappear with an improved economy, and do not disappear with short-term assistance programs. There is a great need to funnel our scarce resources into permanent housing programs, into permanent solutions for those without homes.

I realize that the make-up of each homeless person differs as some may truly only need shelter due to temporary unemployment and others may need permanent housing accompanied by a variety of services. But at bare minimum these people, these families, need housing.

Once we have established and agreed to that underlying fact we can begin the debate on the need for services to accompany these programs. All of the witnesses today will attest to that need. To expect a homeless person of two years to receive housing and then

instantly join mainstream society is both ludicrous and unfair; to expect a recently displaced and unemployed mother and/or father to know where to tap into assistance for their family is both unfair and unreasonable; to expect a mentally ill person who has lived on the street to successfully function in an unsupervised setting is both unreasonable and ill-advised.

Today we have gathered to hear from the people in the communities to determine where to take the homeless programs we created in 1987. The witnesses reaction to the Administration's proposal to consolidate the McKinney program will provide the Subcommittee the necessary insight and data from which we may determine how to revise the Congress' short- and long-term plans to alleviate and one day eradicate homelessness.

The second panel, I am pleased to see, will address the supportive housing programs under the Subcommittee's jurisdiction. As the Nation moves toward the year 2000, it is facing a significant change in its demographics. The number of people over 65 years is growing rapidly, causing a need to ensure that federal assistance programs for that age group are both effective and sufficiently funded. I believe that the effectiveness of the supportive housing programs for the elderly has been attested to in the past. Unfortunately, the Administration closed its ears to those comments as the budget request for fiscal year 1995 included only minimal funding for the section 202 program. This seems counterproductive and contrary to the Subcommittee's commitment to providing for the elderly.

We also will hear today about the Supportive Housing programs

for the disabled and those with AIDS. I hope to hear that persons with AIDS are able to partake in all supportive housing programs available to those with disabilities. I also hope to hear that people with disabilities are finding housing accessible and affordable.

With that I welcome the witnesses and look forward to their testimony.

APRIL 26, 1994

STATEMENT OF CONGRESSMAN BRUCE F. VENTO
AT THE HOUSING AND COMMUNITY DEVELOPMENT
SUBCOMMITTEE HEARING
ON HOMELESSNESS AND SUPPORTIVE HOUSING

Mr. Chairman, I want to thank you for holding this hearing this morning. As most of you know, over this past year, I've had the duty to chair a task force appointed by Speaker Foley at the request of President Clinton. As Chairman of the Task Force on Homelessness, I've spent some good time this past year along with the other Members of the Task Force, Chairman Gonzalez, Representatives Blackwell, Kennedy, Frank, Collins, Evans, Kildee, and Reynolds, examining new and past initiatives to deal with the problems of homelessness.

Speaker Foley's Task Force on Homelessness has had the opportunity to study and review the work I and others have done during the past 10 years in trying to end homelessness in America. Since last March, the Members have focused on issues, interests or areas of expertise - be it housing, health care, veterans, education, public assistance or a study of model programs around the country. We have tried to examine the roots and causes of homelessness and the

links between them -- affordable housing, health care, mental health care, drug treatment, job training, underemployment, and the overall lack of safety nets for many Americans.

The Task Force found that we can no longer rely solely on the short-term, emergency response of McKinney Act programs to solve our problems; that Americans who experience homelessness have been less victims of mental illness or substance abuse and more victims of growing poverty and federal social program responses geared to the 1950s, not the 1990s.

We must open the doors to all federal agencies for people experiencing homelessness. Our report is about all agencies and institutions, including Congress. It calls upon them to work in collaboration; in cooperation; take responsibility; and taking the necessary actions to arrest the growing homeless phenomena in our nation.

We must think and create long-term solutions that solve the problems upstream in the watershed instead of at the waterfall in crisis. We must reinvent, restructure and reinvigorate federal policies and programs to address people holistically, getting upstream to the problems of poverty, crime, affordable housing, quality education, and the lack of jobs. We need to balance federal guidelines and standards with state and local flexibility - facilitating networks

providing for the integrated work of community organizations, non-profits, and yes, businesses, to reduce economic dependence and to alleviate poverty tempered with market forces.

Most of you in this hearing room today have known what it will take for us to end homelessness. You have experienced first hand the large numbers of needy people in our communities across the country. The research presented by one of witnesses today, and others, has told us over 7 percent of the U.S. population has been homeless sometime in their lifetime. The Task Force Report conveys our recommendations and changes to the special McKinney homeless programs and "mainstream" programs for all people. Homeless programs like SSI, WIC, Food Stamps, EITC, housing assistance, Medicaid, AFDC, Emergency Assistance, veterans programs, and others that will reduce homelessness through better delivery of services, prevention, and intervention.

Programs and resources must meet people where they are at today. We cannot ignore the emergency, the crisis of homelessness -- the most vulnerable people in our community. But we must plan to get beyond the emergency. We cannot continue to reinvent the wheel but rather stress interagency efforts and initiatives at the federal, state and local level doing more to prevent homelessness. Homelessness is a moral test for our government and our society.

Mr. Chairman, I look forward to hearing the testimony of the witnesses today on the McKinney programs as they stand and on the proposal that is being presented by the Administration to consolidate our programs under a "continuum of care" flexible grant plan. While I have some concerns regarding the consolidation, for example, the match issue or the possible incorporation of the FEMA program in the outyears, I look forward to working with our able folks at HUD to come up with a plan that is both acceptable and workable from a policy perspective. I am also appreciative of the witnesses that will speak to our other supportive housing programs for the elderly and for persons with other special housing needs, such as people with AIDS.

Mr. Chairman, I would also like to ask unanimous consent to include in the record the Recommendations of the Speaker's Task Force on Homelessness. I think it can be a useful tool in working with all of our programs, McKinney or otherwise, and especially as we received the recommendations of the Federal Plan to End Homelessness from our Interagency Council on the Homeless. Thank you, Mr. Chairman.

Prepared Testimony, House Subcommittee on Housing and Community Development
 Dennis P. Culhane, Ph.D., University of Pennsylvania
 April 26, 1994

Mr. Chairman and members of the committee, in my testimony today I shall briefly review previous estimates of the size of the homeless problem in the United States, present new evidence on the scope of the problem, and discuss some of the implications of this research for future policy, including the proposed reorganization of the McKinney Act programs.

In 1982, advocates for the homeless claimed that 2 million Americans were homeless, or 1% of the nation's population (Hombs & Snyder, 1982). It is important to note that the advocates' estimate was not based on a scientific method, but that it nonetheless became a widely cited figure on the magnitude of the homelessness problem.

In contrast, the Department of Housing and Urban Development conducted its own survey of local officials in 1983, and estimated that 250,000 people, or .1% of the population was homeless at any given time. The HUD methodology was widely criticized, including in hearings before this committee. Nevertheless, HUD's .1% estimate and advocates' 1% estimate set the parameters for the so-called "numbers debate" that ensued.

A number of local surveys by social scientists have since been conducted, that have used more reliable enumeration methods, and that have sought to count homeless people in shelters, parks, subway stations, and a range of other public spaces. These studies have consistently found that between .2% and .4% of their respective populations are homeless on any given night -- more than double HUD's original estimate (see Culhane et al., 1993 for a summary). The exception is a recent study of the District of Columbia's metropolitan area that found 1% of its population over the age of 12 homeless on one night in 1993 (Dennis et al., 1993). At least some of the difference between these findings and HUD's original estimate are likely a result of their having been conducted several years later, when the homelessness problem was believed to have increased.

Researchers from the Urban Institute (Burt & Cohen, 1989) conducted a national study in 1987 that estimated that between 567,000 and 600,000 people were homeless on any given night, or .25% of the nation's population. This estimate was more than double the HUD estimate in 1983, and reflected both the improved methods of enumeration and estimation, and an increase in homelessness over this period. The 600,000 estimate was accepted by federal officials in the Bush administration for planning purposes, although it was considered an overestimate at the time (Kondratas, 1991).

Finally, the US Census Bureau (1991) conducted the most extensive enumeration ever undertaken of the homeless on S night in 1990, finding that 230,000 people were homeless in the nation's 200 largest cities. Evaluations of the Bureau's effort revealed that many street homeless were missed in the count, but it nonetheless produced the nation's most

comprehensive enumeration. The findings were consistent with HUD's original estimate in 1983.

The limitations of the research I have just reviewed have not always been recognized, however. All of this research has been derived from cross-sectional surveys of the population. Such research provides a "snapshot" of the population or its size and characteristics at a given point in time, and as such, is not intended for estimating the magnitude of the problem *over time*. This method also overrepresents people with long periods of homelessness, such as persons with mental health and substance abuse problems (see Dennis et al., 1993), and underestimates people with short periods of homelessness, such as those facing temporary housing emergencies.

To compensate for these limitations, last year, several colleagues and I conducted a longitudinal study of the prevalence of homelessness in two large cities, Philadelphia and New York City, using administrative records (Culhane et al., 1993). Both cities maintain central in-take systems for public shelters, where clients are registered for shelter in centrally maintained databases and through which their use of shelters is tracked over time. We used these cities' computerized records to document the *unduplicated* number of people who stayed in public shelters in both cities, unduplicating people by name, Social Security number and birthdate.

The results of our study were startling. We found that while both cities have single point in time rates of homelessness similar to that nationally (.2-.4%), approximately 1% of both cities' populations stayed in shelters in 1992. Furthermore, we found that those numbers multiply over multiple years, to greater than three percent (3.27%) over five years in New York City and approaching three percent (2.77%) in Philadelphia over three years.

Of course, the risk for homelessness is not spread evenly throughout the population. African Americans were at least 10 times more likely to become homeless than whites, with 8% of New York City's African American population having been homeless at least once in the last five years. Children were also more likely to be homeless than the general population, with 8% of the African American children in both cities having been homeless in the last several years, or one out of every 12. If we were to include more recent data, we would find that nearly one out of every 10 African American children have been homeless in these two cities since the late 1980s. Moreover, we found that between 14 and 17% of the poverty population in these two cities had been homeless during the study period.

It is worth noting that while our study was based just on Philadelphia and New York City, there are converging sources of evidence that support the generalizability of our findings nationally. First, there are other cities and states that have computerized tracking databases. Martha Burt of the Urban Institute (1994) recently completed an analysis of data from 7 additional jurisdictions, including Columbus, Ohio, St. Paul, MN, Los Angeles, CA, the State of New Hampshire, the State of Rhode Island, Louisville, KY, and the San Francisco Bay area. She has calculated unduplicated annual rates of shelter use

for these areas, finding the Philadelphia and New York City 1% annual rates to be mid-range between a low of .3% for the State of New Hampshire and a high of 2.12% in St. Paul. In fact, the only two population adjusted rates among these jurisdictions that fall below .75% annually are the states of Rhode Island and New Hampshire, undoubtedly because they include their entire state population base as the reference point.

A second source of confirming evidence comes from telephone surveys of the general population in Buffalo, NY, Tulsa, OK, and one conducted on a national sample. These surveys have found that between 4% and 7% of the general population reports having been homeless before (Link et al, 1993; Novacek, et al., 1991; Toro et al, 1992). Indeed, the national study by Bruce Link and colleagues, which asked people specifically about whether they had stayed in a shelter or slept in public spaces, identified a five-year homelessness rate of 3.2%, identical to our 5-year finding in New York City.

Link and colleagues (1993) use their national data to estimate that as many as 7 million people may have been homeless in the last five years of the 1980s. An extrapolation of our findings for Philadelphia and New York City, that nearly ten times as many people have been homeless over 3 and 5 years than at a single point in time, to the 600,000 single night figure previously accepted by the Bush administration, would similarly lead to a 6 million estimate over a three to five year period.

Thus, this new research demonstrates that turnover among the homeless population is significant. Given the known shelter capacity in these systems and the volume of shelter users identified in our study, most people who become homeless must stay in shelter for relatively brief periods of time (60 day average in Philadelphia; 90 day average for families' first stay in New York City). Indeed, more than 90% of the people we identified as using public shelters in either city are no longer in those shelter systems, suggesting that assumptions about homelessness as primarily a chronic condition are far off the mark. Our preliminary analysis of shelter stay patterns data suggest that in Philadelphia that about 15% of shelter users annually will stay in shelter for more than 6 months, and that more than half of shelter users will stay in shelter for less than 45 days.

This analysis would argue for recognizing that there are at least two major subgroups among the homeless, the smaller, potentially more visible group with long term homelessness, and the larger, probably less visible population of persons experiencing temporary housing emergencies. Future research on the characteristics of these two groups is needed. Nevertheless, the existence of two subgroups would correspondingly suggest a two-pronged strategy to address the problem.

First, those persons with special needs and who are homeless for long periods of time are quite evidently not being adequately served by the existing system of emergency shelter provision. More intense efforts to reach out to the street homeless, to stabilize long-term homeless people in transitional housing facilities, and to provide them with supported, permanent housing alternatives in the community are necessary if we are to reduce chronic

homelessness. This is consistent with the "continuum of care" proposal outlined in the pending legislation.

Second, those persons who have temporary housing emergencies should not be forced to undergo the disruptions of family, work and education that homelessness imposes before they are eligible to receive intervening support and services. For this group, both broad-based and more finely targeted homelessness prevention strategies should be considered as they are more likely to better serve them and reduce their costly use of emergency shelters.

Homelessness prevention is therefore essential to any plan to reduce homelessness, and will require interagency collaboration, at all levels of government. At the broadest levels, homelessness prevention requires increasing the residential security of poor households, through more comprehensive income maintenance protections (via tax credits for low-wage workers and improved standards for public assistance), and through the expansion of affordable housing opportunities (via rent subsidies, tax credits for rent burden and low-income housing construction). A sufficient strategy for the prevention of homelessness among vulnerable adults would also require equal protection for persons with mental health and substance abuse disorders in health care reform, by mandating equal access to inpatient and/or residential treatment services at parity with other disorders. Likewise, improved and mandated discharge planning standards for people leaving penal or health care institutions should be applied to halt the abdication of that responsibility to shelter systems.

Finally, "later stage" or secondary prevention initiatives might include aggressive community-based attempts to assess and divert people who present to the shelter system. Such "shelter diversion" programs might include emergency cash assistance, eviction prevention, bridge loans or resettlement subsidies, and crisis residential services. Components of such a strategy are already in place in many cities, and an evaluation by the Inspector General at HHS (1991) documented their cost-effectiveness and encouraged their expansion. I would also note that a city-wide shelter diversion program for families is operating in New York City, where significant cost savings to the shelter system have been documented.

The administration's proposed consolidation of McKinney Act funds into a single block grant and the increase in expenditures could be used to assist localities in developing the broad continuum of care that is needed if we are to have an impact on the problem -- from prevention to outreach to transitional housing to supported, permanent housing. Localities would have the flexibility of funding programs based on gaps in their existing range of services, and might be able to use new funding to cull the collaborative energies of "mainstream" housing, health and human service providers into serving this population, and by so doing, building the capacity to reverse the current flow of people from neighborhoods, to shelters, to the streets, back in the other direction.

Given the significant expansion of resources proposed in the pending legislation, I would also like to note that the data systems which were used for our study in Philadelphia and New York City deserve closer examination for their potential application to program monitoring and evaluation. Such data systems allow local managers to follow changes in the utilization of their homeless service systems, and could be modified both to track the wider range of services embedded in the continuum of care, and to produce standardized performance indicators. Such performance measures would allow local and national policymakers to identify which programs are working and which are not, and to expand or contract programs accordingly.

For cited literature, see the references and the related commentaries in the Fannie Mae working paper, "Public Shelter Admission Rates in Philadelphia and New York City: The Implications of Turnover for Sheltered Population Counts" introduced for the record with this testimony and to be published in a forthcoming issue of Housing Policy Debate, published by the Fannie Mae Office of Housing Research.

STATEMENT OF MARSHA A. MARTIN

EXECUTIVE DIRECTOR, INTERAGENCY COUNCIL ON THE HOMELESS
BEFORE THE SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
OF THE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

APRIL 26, 1994

Mr. Chairman and Members of the Subcommittee:

I am pleased to appear before you to discuss the Administration's proposed legislative initiatives concerning homeless assistance programs under the Stewart B. McKinney Act. First, however, I want to again express my appreciation to Chairman Gonzalez and the members of this subcommittee for your commitment to addressing the crisis of homelessness in America and your continued support of interagency cooperation and coordination in administering Federal programs for the homeless. The excellent report of the Speaker's Task Force on Homelessness that was chaired by Congressman Vento of this subcommittee is further evidence of your leadership on this issue.

You asked that I address the Clinton Administration's plan to consolidate various homeless assistance programs. In doing so, I will also share with you information received by Interagency Council on the Homeless staff during the past 10 months as it relates to the proposed reorganization of homeless assistance. As you know, I have served as Executive Director of the Interagency Council for a year now, working with the 17 member agencies under the leadership of HUD Secretary Henry Cisneros.

Over the past year, the staff of HUD and the Interagency Council on the Homeless have worked with the other member agencies of the Council to obtain recommendations from thousands of representatives of States, cities, and nonprofit organizations serving homeless families and individuals--as well as over 400 homeless people themselves--as part of our effort to fulfill the mandate of President Bill Clinton's May 19, 1993 Executive Order. Executive Order 12848 directed the member agencies of the Interagency Council to develop a Federal Plan to address homelessness. This soon-to-be-released Plan, entitled "Priority: Home!: The Federal Plan to Break the Cycle of Homelessness", reflects unprecedented consultation and collaboration on various issues and concerns pertaining to homelessness in America. It also makes recommendations for consolidating and streamlining programs as part of a single, coordinated Federal strategy which

includes both short-term and long-term measures.

The Administration's proposals that we are discussing today are rooted in our recognition of the need to take more concrete steps in responding to the crisis of homelessness. It is important to recognize that homelessness today is the culmination of many factors: shifts in the economy and lasting unemployment, the lack of affordable housing, increased drug abuse, and other physical and mental health problems of those who are the most vulnerable in American society and policies that have either ignored or misdiagnosed the impact of these realities. Adding to the impact of these causes are changing family structures and a breakdown in social institutions. From this new understanding, two broad classes of problems which contribute to homelessness emerge--crisis poverty and chronic disability. Crisis poverty refers to the stubborn demands of ongoing poverty, made untenable by some unforeseen development. Chronic disability refers to one or more chronic, disabling conditions which impact on the ability to remain stably housed.

Against this backdrop, our approach must be reflected in policies that address the needs of both crisis poverty and chronic disability. The current approach on the Federal level has been effective in responding to emergency needs only. However, we now need a program to address the structural causes and reduce the barriers to mainstream programs. The proposed McKinney amendments propose to restructure the relationship between Federal, State and local governments and the nonprofit provider community in an effort to focus Federal and local energies on the underlying causes of homelessness in order to make a real difference.

It is important to note that the number one recommendation made by those attending one of 17 HUD-Interagency Council sponsored interactive forums or responding to our mail survey was to consolidate the 20 programs where appropriate and improve program coordination. In short, people told us that they wanted a "one-stop" shop for Federal emergency assistance and transitional housing dollars. Under the current McKinney program structure, Federal funds for homeless assistance do not provide localities and providers the flexibility they need to create a comprehensive system that truly addresses the many dimensions of the problems and needs associated with homelessness in a coordinated fashion.

This Administration's homeless proposals are included in the President's proposed FY 1995 budget which includes all homeless consolidation measures. Much of this work falls to HUD, which in FY 1994 administers 68 percent of the total McKinney funds and six separate programs. The details of this legislative proposal are included in the Housing Choice and Community Investment Act of 1994 announced on April 20 by HUD Secretary Cisneros. The

proposal would make HUD a full partner with local communities in their efforts to reduce homelessness.

On April 14, HUD Assistant Secretary Andrew Cuomo appeared before you to discuss the specific proposals in the Act that are related to homelessness, as well as other community and economic development initiatives. As he stated, this approach would be the first step away from a separate homeless system and toward mainstream approaches focusing on affordable housing and social services. The proposed HUD reorganization would consolidate HUD's McKinney programs into a single homeless assistance grant program, with an assurance that at least 51 percent of the funds would go to eligible nonprofit organizations. Funding would be available for all existing eligible activities under the current McKinney programs and would allow communities to design real solutions rather than programs designed to fit Federal categories based on funding availability. It proposes to ensure participation by all relevant parties. The goal of the reorganization is to ensure that communities across the nation have the resources necessary to establish a seamless system of services which includes, in addition to rehabilitative services, emergency, transitional and permanent housing.

This approach has the support of many knowledgeable providers because their experience and unique perspective were vital to its development. For example, Marty Fleetwood, Executive Director of HomeBase, a nationally recognized social service public interest group representing providers and advocacy organizations, has endorsed this approach. Specifically, she stressed that the reorganization of the Federal emergency and housing funds provided through the McKinney Act programs would facilitate the development of a continuum of care and allow a locality to plan and develop a seamless system of services based on a local assessment of need. No more will Washington approve an application for HUD funds without evidence of a local community planning process which includes all relevant parties.

It is also important to note that HUD has reflected in its proposal the need to link plans with other Federal programs affecting homeless families and individuals.

The President's FY 1995 budget also includes consolidation proposals involving other agencies. For example, the Department of Health and Human Services is proposing to consolidate three existing programs in the Center for Mental Health Services, including the ACCESS program. The three HHS programs targeted at homeless youth would be consolidated into one Comprehensive Runaway and Homeless Youth program. The Department of Labor proposes to redirect its homeless funding through the mainstream Job Training Partnership Act program, which has been modified to focus more funding on disadvantaged groups, including the

homeless population. The Emergency Food and Shelter program would be transferred from the Federal Emergency Management Agency to HUD, consistent with the overall Administration objective of program consolidation and coordination. These intra-agency consolidation proposals and the proposed interagency consolidation between HUD and FEMA will combine to improve Federal program coordination and facilitate more effective local homeless service system development.

In summary, the homeless initiatives included in the HUD legislative proposals involve reorganizing title IV of the McKinney Act--the title covering HUD's programs--to enable localities to shape a comprehensive, flexible, coordinated system of homeless assistance, called a "continuum of care." Under this new approach, housing and necessary services would be provided for each stage of homelessness--from emergency shelter to permanent housing--in a framework that can more easily be tailored to address local needs and priorities.

In closing, I would like to stress the importance of this proposed reorganization of McKinney and its real potential to break the cycle of homelessness. The leadership displayed by the agencies, in particular Secretary Cisneros and Assistant Secretary Cuomo, has played a very important role in making this agenda item a top priority for this Administration. The support of your subcommittee and your colleagues would send a message to the nation that the time has come to reinvent the approach and ensure opportunities to move from homelessness to self-sufficiency and community living.

Thank you for inviting me. I would be happy to answer any questions you might have.

QUESTIONS FROM CHAIRMAN HENRY B. GONZALEZ TO
MS. MARSHA A. MARTIN

April 26, 1994, hearing held by the
Subcommittee on Housing and Community Development,
entitled "H.R. 3838, Housing and Community
Development Act of 1994"

What progress has the Interagency Council made since you came before the Subcommittee last summer? Have you been able to hold meetings with the council members, in other words, has communications between the various agencies improved?

Were you and the Council involved in developing the continuum of care approach or the consolidation of the McKinney programs? What direction would you take the McKinney programs in the next two years and how would that improve the current situation?

Can you provide the Subcommittee with a brief summary of what the federal plan to end homelessness will include?

Though no distribution system is perfect, the FEMA Emergency Food and Shelter Program appears to funnel more funding into rural areas than other homeless programs? Is that impression correct?

RESPONSES FROM MARSHA MARTIN TO QUESTIONS FROM CHAIRMAN GONZALEZ
April 26, 1994 Hearing on H.R. 3838

- Q. What progress has the Interagency Council made since you came before the Subcommittee last summer? Have you been able to hold meetings with the Council members, in other words, have communications between the various agencies improved?
- A. The first meeting of the Interagency Council on the Homeless as a Working Group of the Domestic Policy Council was held on December 16, 1993. The meeting was well attended by cabinet and sub-cabinet level officials. In addition to the meeting of the full Council, there have been numerous meetings of policy-level staff representing all the member agencies. We have received full cooperation from all of these agencies, and communication is excellent. We are now beginning to implement the Federal Plan. In addition to the regular monthly meetings with representatives of all of the member agencies of the Council, we have established five subcommittees whose specific task is to address issues relating to implementation of the Federal Plan.

Secretary Cisneros, Secretary Shalala, and Secretary Brown--the leaders of the Council--each attended the May 17, 1994 release of the Federal Plan. To further demonstrate the commitment of the President and senior Administration officials to the issue of homelessness, they were joined by Mrs. Tipper Gore. Congressman Bruce Vento, chairman of the Speaker's Task Force on Homelessness, also attended and played a key role at this event.

- Q. Were you and the Council involved in developing the continuum of care approach or the consolidation of the McKinney programs? What direction would you take the McKinney programs in the next two years and how would that improve the current situation?
- A. Yes. The Interagency Council on the Homeless, at the invitation of HUD, jointly sponsored 18 interactive forums which provided a venue for obtaining suggestions and ideas for improving Federal services and other resources for homeless families and individuals. Among the suggestions received were recommendations for improved coordination at the local level and simplified application processes at the Federal level. It was clear from those discussions that the current approach needs to be reinvented.

In response to these recommendations, the Council has endorsed HUD's proposal to establish local continua of care through a reorganization of HUD's McKinney programs and improve the coordination of McKinney programs administered by other agencies to improve access.

- Q. Can you provide the Subcommittee with a brief summary of what the Federal Plan to end homelessness will include?
- A. **I have attached a copy of Priority: Home! The Federal Plan to Break the Cycle of Homelessness, which was released on May 17, 1994, and a one-page summary of the report.
- Q. Though no distribution system is perfect, the FEMA Emergency Food and Shelter Program appears to funnel more funding into rural areas than other homeless programs? Is that impression correct?
- A. Yes, that is my understanding. However, other formula-based homeless assistance programs that direct funding assistance to States have also proven effective in channeling funding support to rural areas.

** on file in the Subcommittee on Housing and Community Development office



Interagency Council on the Homeless

PRIORITY: HOME! THE FEDERAL PLAN TO BREAK THE CYCLE OF HOMELESSNESS

"We must address the problems that render people homeless in the first place rather than focusing simply on getting them off the streets for the night."

—Secretary Henry G. Cisneros
Housing and Urban Development

The Clinton Administration's policy regarding homelessness is articulated in a new report that was recently released by the Interagency Council on the Homeless, a working group of the President's Domestic Policy Council. The 100-page document reflects the consensus of the 17 member agencies of the Interagency Council and is the product of unprecedented consultation with representatives of State and local governments, service providers, public interest and advocacy organizations, homeless and formerly homeless people, and other concerned individuals and organizations.

The report includes a thorough analysis of the nature and causes of homelessness today, as well as a comprehensive overview of Federal and local assistance and relief efforts to date. For the first time, the Federal government acknowledges the importance of two broad and sometimes overlapping classes of problems—"crisis poverty" and "chronic disability"—which can interact and result in large-scale homelessness. A wealth of evidence underscores the Administration's understanding that structural factors often lie at the core of homelessness for those living in "crisis poverty", and that chronic disabilities are often at the core of frequent or prolonged homelessness.

The Federal Plan proposes the development of a seamless system of services called the "continuum of care," a concept which encompasses emergency needs, transitional support, and permanent housing. With the Federal government reorganizing its resources in order to improve its partnership with States, localities, and the private sector, this approach will be results-oriented, with the emphasis moving from emergency assistance to services designed to promote long-term independence and self-sufficiency.

Other key recommendations include doubling the HUD McKinney homeless assistance budget, improving the mental and physical health systems, increasing Federal housing subsidies for homeless families, fighting illegal discrimination, and exploring the use of tax incentives to assist low income households with rental and housing costs.

To prevent future homelessness, the Clinton Administration understands that it will be necessary to provide more opportunities for work, job training, better education, comprehensive social services, and affordable housing.



ADDITIONAL QUESTIONS OF CONGRESSMAN VENTO
FOR THE 4/26/94 HEARING OF THE
HOUSING AND COMMUNITY DEVELOPMENT SUBCOMMITTEE

FOR DR. MARSHA MARTIN
INTERAGENCY COUNCIL ON THE HOMELESS

1. HOW OFTEN, SINCE THE RECONSTITUTION OF THE INTERAGENCY COUNCIL
ON THE HOMELESS UNDER HUD AND THE DOMESTIC POLICY COUNCIL, HAVE THE
MEMBERS AND/OR THE POLICY GROUP MEMBERS OF THE COUNCIL MET?

2. AS A RESULT OF THE LOSS OF SPECIFIC FUNDING FOR THE INTERAGENCY
COUNCIL ON THE HOMELESS, WHAT FUNCTIONS OF THE COUNCIL HAVE BEEN
DISCONTINUED? WHICH HAVE BEEN CONTINUED? WERE THESE FUNDING
DECISIONS DETERMINED BY COUNCIL? WHICH AGENCIES HAVE PICKED UP
FUNDING?

RESPONSES FROM MARSHA MARTIN TO QUESTIONS FROM CONGRESSMAN VENTO
April 26, 1994 Hearing on H.R. 3838

- Q. How often, since the reconstitution of the Interagency Council on the Homeless under HUD and the Domestic Policy Council, have the members and/or the Policy Group members of the Council met?
- A. The reconstituted Interagency Council on the Homeless Working Group of the Domestic Policy Council met on December 16, 1993. The meeting was well attended by cabinet and sub-cabinet level officials. There been numerous other meetings of policy-level staff who represent all the member agencies. The Policy Group met often throughout the winter of 1993 and the spring of 1994 to develop the Federal Plan to Break the Cycle of Homelessness and to discuss other pending policy issues. In addition, there have been meetings on issues relating to such topics as surplus property and policies relating to the transition of the Job Training for the Homeless Program. We continue to receive full cooperation from all of these agencies. We hold regular monthly meetings with representatives of all of the member agencies of the Council, and we have established five subcommittees whose specific task is to address issues relating to implementation of the Federal Plan.

Secretary Cisneros, Secretary Shalala, and Secretary Brown--the leaders of the Council--each attended the May 17, 1994 release of the Federal Plan. To further demonstrate the commitment of the President and senior Administration officials to the issue of homelessness, they were joined by Mrs. Tipper Gore.

- Q. As a result of the loss of specific funding for the Interagency Council on the Homeless, what functions of the Council have been discontinued? Which have been continued? Were these funding decisions determined by the Council? Which agencies have picked up funding?
- A. HUD has assumed responsibility for salaries and related expenses for the existing headquarters staff (the Council's Regional Coordinators have always and continue to be HUD employees on detail to the Council). None of the basic functions of the Council have been discontinued. Council staff continue to disseminate information regarding Federal resources in the area of homeless assistance, provide technical assistance through a network of regional coordinators and governor-designated State contacts, and coordinate policy among senior officials who represent its 17 member agencies. The Council will develop an organization and management plan in the near future which will identify a specific work agenda that is consistent with the recommendations of the recently released Federal Plan to Break the Cycle of Homelessness.



THE NATIONAL ALLIANCE TO END HOMELESSNESS, INC.

**Testimony before the
Subcommittee on Housing and Community Development
of the
Committee on Banking and Urban Affairs
by**

**Nan Roman
Vice President for Policy and Programs
The National Alliance to End Homelessness**

April 26, 1994

Mr. Chairman and members of the Subcommittee, my name is Nan Roman and I am Vice President of the National Alliance to End Homelessness. The Alliance is a national membership organization with 1,750 dues paying nonprofit members from every state in the Union. The vast majority of our members focus their efforts on the transitional and permanent housing and service needs of homeless people. These are the organizations that are on the front lines in the battle to end homelessness.

Mr. Chairman, we are particularly honored to be before you today because in the Congress, the leadership on the issue of homelessness rests in the commitment of this Subcommittee. In years past, we have been honored to present National Alliance to End Homelessness awards both to you, Mr. Chairman, and to Mr. Vento for your exceptional work on this issue. Tomorrow night we will present our public sector award to a former member and continuing participant of this Subcommittee, Mr. Barney Frank. We are deeply grateful for the Subcommittee's continuing commitment to designing solutions to homelessness.

I would like to begin my testimony by stressing the importance of the HUD McKinney Act programs. They are not optional efforts. Without them homeless people will live, and will

die, on the street. These are critical life or death programs that impact single adult men, many with alcohol and drug abuse problems or mental illness; children; working people; pregnant women; veterans; disabled people; and even infants.

I should also mention that, after years of revision and refinement, and although far from perfect and vastly over-subscribed, these programs work well. While eventually we will be able to remove the, pardon the expression, safety net that these programs represent, at the moment they are badly needed. This is because homeless people require programs tailored to their needs. Until the so-called mainstream programs are adequately funded and until they can be made to respond to people in crisis, we must look to the McKinney Act and other homeless programs to help people keep their heads above water and to re-establish their stability. While they are not the solution to homelessness, they have been and they remain a critical element in our national strategy to end homelessness.

Mr. Chairman and members, you have before you several proposed approaches to dealing with the HUD McKinney Act programs. I will focus today on two: the Chairman's own bill, HR 3838, which retains the current categorical programs and the Administration's Reorganization of the Stewart B. McKinney Homeless Assistance Act (although it only addresses HUD's and FEMA's programs).

I think that the Subcommittee, and indeed all of us, face a real challenge in deciding how best to use the limited resources contained in the McKinney programs. There are issue of local control vs. federal leadership; of entities that receive funds vs. entities that have been unsuccessful in obtaining them; of emergency assistance vs. permanent housing; of expending HUD resources on housing vs. spending them on services; of nonprofits vs. local governments; of coordination vs. competition. We will not get it all — there will be trade-offs. I would like to discuss some of the issues involved with you today.

In the past the members of the National Alliance to End Homelessness have opposed the consolidation of McKinney programs. This is primarily because of their apprehension about turning federal homelessness resources over to localities for distribution. While some localities have done an excellent job of dealing with homelessness, many have not. Many localities have been, at best, indifferent to the problems of homeless people and at worst expended far more energy on moving homeless people out of the community than on helping them find permanent housing within it. Our nonprofit members experience first hand the politicization of the issue at the local level and dread the day when decisions about serving unpopular and difficult populations such as single adult men with alcohol and substance abuse problems or AIDS will have to be made within the local political arena. Federal competition, imperfect as it has been, has at least had the pretense of being based on the merits of need and performance. It is nonprofits which have taken the initiative on ending homelessness at the local level and federal competition has allowed them to do what they felt was necessary, if they could prevail in the competitive process. While the solutions to homelessness are, indeed, local, they do not necessarily rest with local government.

Having said this, I believe that HUD has correctly assessed the many problems inherent in running a series of competitive programs. These problems center on the fact that, to the degree that localities, both nonprofits and local governments, rely upon the use of federal funds, it is virtually impossible for them to plan a coordinated and comprehensive solution to the problem. They cannot plan on the presence or absence of funding, nor can they decide what it will be used for. And, having taken the piecemeal approach for the past five years, many are ready for coordination.

We have, then a situation of two proposals, both with positive and negative aspects. The categorical programs give great opportunity for federal leadership through program design -- a critical factor when resources are scarce. They are competitive, and non-politicized. The formula program, on the other hand, allows for local planning and design of comprehensive assistance - - also critically important. It seems that, with the limited resources we have to work with, trade-offs will be necessary. We would like to work with you, Mr. Chairman, and the other members of the Subcommittee to fashion a sensible system of trade-offs. We do not yet have an answer, although I will suggest today two possible alternative ideas. But I believe that as we receive further input from our members (since we only received the HUD proposal at the end of the week we have not had an opportunity to assess their reaction), we should be able to assess what will work at the local level.

I would now like to discuss the HUD proposal and possible modifications of it and I will finish with some recommendations as to changes in the categorical programs. The changes to the categorical programs are detailed in an attachment and would apply to either the categorical programs (if they are retained) or to the eligible activities of a formula program.

The HUD proposal is ambitious, comprehensive, and has many excellent elements. We are deeply grateful to Secretary Cisneros for his leadership on this issue and for being willing to commit resources to it. We have actively worked with Assistant Secretary Cuomo on HUD's proposal, and they have incorporated many of our suggestions. If you decide to go with a formula-based approach, I think that HUD's proposal is an excellent starting point. I believe that our members will be very attracted to the elements of this proposal that require local planning; mandate a "continuum of care," or comprehensive approach; and provide consistency of funding. Certainly they will be grateful for the level of funding requested.

There are, in our opinion, several key elements to HUD's proposal which must be carefully assessed.

- ◆ Formula and funding level. The Emergency Shelter Grant formula is proposed. We have not seen how this formula plays out when applied (i.e., how much localities and rural areas will receive). The concern for any formula would be spreading the money too thin or making enormous shifts in funds distribution. We have nothing against the ESG formula, but urge you to carefully examine the results of applying it. If the funds available for formula distribution fall too low, the allocation to each locality will be too small. The trigger proposed in the legislation is essential, but we will need to see how

the formula plays out when applied to the lowest allowable level (\$510 million) to assess whether it is set at the correct mark.

- ◆ Needs Assessment. Needs assessment is critical because many localities focus resources on those sub-sets of the homeless population that are more popular to serve (i.e., families with children) when the bulk of their problem lies with single adults with illnesses. It is important to stipulate that the priorities and programs established adequately and proportionately reflect the nature of the problems and needs identified.
- ◆ Local planning board. This is, in our opinion, essential to the success of the proposed reorganization. It is the protection that addresses the politicization of homelessness at the local level. It ensures that those who know the solutions best -- homeless people and the nonprofits that assist them -- help design local efforts. It is also critical that the constituent members of the board be specified in the legislation. This is done in HUD's proposal, but we would include in the local mental health, substance abuse treatment, and other service providers and agencies; the public housing authority; and others that we will recommend at a later date.
- ◆ Non-participating cities. It would not be a surprise if some localities chose not to apply for these funds. In fact, match, maintenance of effort, and other requirements might be a disincentive to doing so. HUD does provide an option should localities choose not to participate. It is our concern that this alternative be implemented quickly and that the process then be separated from the locality's consolidated planning process.
- ◆ Section 8 vouchers. Any organization operating an emergency or transitional program will tell you that a major problem they face is finding permanent housing for their clients. Without the permanent housing to move to, these programs are not transitional, but really long term shelters. While designing a way to use these vouchers without drawing the millions of under-housed Americans into the homelessness system is a challenge, targeting the Section 8 resources to those most in need -- the homeless -- is the right thing to do.

As I mentioned, a major concern with the HUD proposal is that the formula will spread resources too thin so that there will not be enough money to operate the "emergency" assistance infrastructure (prevention, shelter, transitional housing) and build permanent housing to meet the primary need of homeless people. One solution to this problem was suggested by the House in the Conference Report on the 1990 Act. This was to develop a formula driven program to support prevention, emergency and transitional housing, but hold out the SRO program. We might further suggest exploring the possibility of strengthening the permanent housing aspect of Shelter + Care and holding this out also.

Under this option you would have a formula allocation for prevention, emergency shelter and transitional housing assistance. As such, all eligible activities under the Emergency Shelter Grant Program, the Rural Homeless Assistance Program, the Supportive Housing Program, Safe Havens and the Innovative Homeless Demonstration Program would be eligible. Permanent

housing activities would also be eligible, where the locality so determined. We would discourage any set-asides or program targeting within this formula allocation to preserve local initiative in designing the "continuum of care."

The SRO Section 8 Moderate Rehabilitation program and the Shelter + Care program could be held out of the formula allocation and operated as competitive grant programs (with certain changes proposed in the attachments) to provide permanent housing. This proposal would address the following concerns.

- ◆ It more clearly defines that the Homeless Grant funds are designed to address emergency and temporary housing needs of homeless people -- prevention assistance, shelter, transitional housing. While a community could use this money for eligible permanent housing activities under the programs allowed, the preponderance of permanent housing should come from permanent housing programs, including SRO and Shelter + Care, CDBG, HOME, Section 8 and so on.
- ◆ SRO and Shelter + Care are unique in targeting assistance to single adults, including those with AIDS, mental health and alcohol and other substance abuse illnesses. We need the federal leadership and targeting these categorical programs represent. This proposal retains that targeting.
- ◆ The Alliance maintains that the loss of 1/2 of the nation's SRO stock since 1970 has contributed to homelessness. We believe that for single adults -- the majority of the homeless population -- well managed SRO housing can be the missing link in the housing market. The federal SRO programs have stimulated the production of thousands of units of housing. The programs are finally getting up to speed and are currently over-subscribed in terms of applications. We fear losing the stimulus for SRO production if the categorical program is eliminated. For this reason we recommend holding it out with the changes proposed in the attachments.

Another possible modification of the HUD proposal is to enter into it more slowly than HUD's legislation anticipates. This is an ambitious change in federal assistance to homeless people and as such its implementation must be carefully planned. As I mentioned, neither the Alliance nor the Congress has had time to ascertain how the formula will affect distribution of funds. The local planning process is necessarily complex and it will take time to institute local planning boards and make them effective. If the local government abdicates from the program, the process of local nonprofit consortia assuming their responsibility will also be time-consuming. These time concerns, which might not be a problem for other programs, are of deep concern when dealing with homeless programs, because any interruption in service is a life or death matter to homeless individuals and families. Is it possible that the formula allocation, with the attendant coordinated approach, could commence in FY96 rather than FY95, with preliminary plans in FY95 for FY96 funds? This would give us an extra year to get the infrastructure in place before trying to force the program into effect.

Options such as withholding the SRO and Shelter + Care Programs, or giving the formula program more start-up time are matters the Subcommittee could consider as you address the possibility of formula-allocating the HUD McKinney funds.

In regard to the categorical programs as proposed for reauthorization under HR 3838, the Alliance convened focus groups of its members last year to examine the statutory authority for these programs (as well as regulations and other governing language). In general, these focus groups recommended that wherever possible the programs be made uniform in terms of their match requirements, target populations (which they recommend should be anyone who falls under the McKinney Act definition of homelessness) and their definitions, including definitions of homelessness, operating costs and the like. The groups also recommended that nonprofits be eligible applicants for all McKinney programs. They recommended that programs that work not be phased out, but encouraged to continue and that programs receive more funding for follow-up with their clients, in line with their desire to undertake far more evaluation of their programs. As I mentioned, the specific statutory changes for Supportive Housing, SRO Mod 8 and Shelter + Care are attached. Also attached are the funding levels which we propose for: (1) the categorical programs; (2) the HUD proposed Homeless Grant Program; and (3) the alternative reorganization program.

As to the matter of moving the Emergency Food and Shelter Program from FEMA to HUD, we see no compelling reason to do so. While coordination is cited as the rationale, HUD intends to structure the program precisely as it is currently structured and no coordination with other programs appears to be contemplated. FEMA's outlays on this program are virtually 100% in each initial year, with most of the money going out in the first quarter. HUD can only dream of such efficiency. If it isn't broken, why fix it?

Mr. Chairman and members of the Subcommittee, we are deeply grateful to you for allowing us to testify before you today. In this Committee reside those in Congress most concerned about homeless people. We will continue to rely upon your leadership, and we stand ready to assist in any way to build the solutions to homelessness.



THE NATIONAL ALLIANCE TO END HOMELESSNESS, INC.

National Alliance To End Homelessness
Statutory Changes
Supportive Housing Program

Section 421. Purpose.

Omit, "including innovative approaches to assist homeless persons in the transition from homelessness." There is no intrinsic value in innovation versus non-innovation. The important element is effectiveness.

Section 422. Definitions.

Under disability add chronic alcohol or other drug abuse illnesses and severe personality disorders. (Also, it should be recognized that people may have more than one disability. This disability may be both a physical and a mental disability.)

Under operating costs, further define to include one-time capital costs such as computer networks and telephone systems.

Section 422. Eligible Activities

Change the cap on acquisition, rehab and new construction to \$1 million. Update this figure annually based upon current statistics.

Omit the 75% cap on grant funds available for operating costs. 100% should be eligible (See Changes Under Matching Requirements).

Regarding the 20-year operation of supportive housing, a mechanism is needed by which organizations which are no longer able or no longer need to operate the facility as supportive housing can transfer it to other nonprofit entities if its low income use is preserved.

Section 424. Supportive Housing

Under permanent housing for homeless persons with disabilities, the maximum size of the project is too confining and should be left to local control. (Concern is raised regarding local control. May want to leave up to the individual applicant with verification of the reasonableness of the size.)

Section 426. Program Requirements

Under the Contents of the Application, clarify that only one

local official needs to sign off on CHAS consistency.

Under Selection Criteria, drop the section requiring innovative quality.

Under Matching Funding, there should be a required 10% (25%) match against the entire grant request. It should then be left to local applicants to determine for what portion (services, housing, administration, operations, etc.) of the program they can obtain the match.

Flood protection standards should be loosened to reflect common sense.

The limitation on administrative expenses should be dropped. Applicants should be required to present a proposal for a program that has no more than 30% of all the funds going to administration. There should then be no restriction on the percentage of that 30% which is covered by HUD.

Section 429. Authorization of Appropriation

Omit set-asides of 25% each for families with children and homeless people with disabilities and 10% for support services.



THE NATIONAL ALLIANCE TO END HOMELESSNESS, INC.

**National Alliance To End Homelessness
Statutory Changes**

Single Room Occupancy (SRO) Section 8 Mod Rehab Program

Sec. 441(a). Increase in Budget Authority

Re-calculate budget authority to increase the certificates to 15 years consistent with increasing the supply of SROs by 2,000 units per year. Also take into account the FMR and the need to realistically adjust it.

Sec. 441(b). Use of funds

Needs to make clear that nonprofits that apply will retroactively be able to use their current certificates.

Sec. 441(c). Allocation.

(3). Groups need not provide a full inventory of suitable housing stock, but rather name the stock they are interested in.

Increase cap on single locality's eligibility to receive funds from 10% of total to (up) to 25% of total. [This stipulation should be regulatory and not statutory.]

Sec. 441(d). Fire and Safety Improvements.

Section should be changed to, "projects must comply with state and local fire and safety codes."

Sec. 441(e). Cost Limitation.

(1) Change to read that the Secretary will each year set a per unit limit that will be appropriate to the locality and will not be less than the previous year's limit (plus inflation).

Sec. 441(f). Contract Requirements.

(1). Initial contracts should be for 15 years.

(2). Renewal contracts should be for 15 years. [This will give a total 30 year period of assistance, making projects eligible for 30-year mortgages.]

However, it would be preferred that a permanent subsidy be attached to these units.

Eliminate the requirement that no project may have over 100 units.



THE NATIONAL ALLIANCE TO END HOMELESSNESS, INC.

National Alliance To End Homelessness
Policy Recommendations
Shelter + Care Program

Most of the comments relative to the SRO Section 8 Mod Rehab Program also have applicability to the SRO component of the Shelter + Care Program. However, the following items were also raised.

- The major problem with this program is that it does not know what it wants to be. Is it a permanent housing program or is it a transitional housing program? As people get stabilized and do not need an many services, are they supposed to move out, or can they stay?
- The SRO portion of the Shelter + Care program should be moved to the Section 8 Mod Rehab program with a goal still being the provision of housing to the hardest to reach populations, the dually and triply diagnosed. It makes more sense to concentrate the SRO programs together with slightly different targeting or service requirements.
- There needs to be a mix of types of tenants being served. There should be (extra points awarded for those projects that are integrated) an absolute percentage of people with disabilities served in the (proposed) Shelter + Care portion of the Section 8 Mod Rehab program. Concentrating people with disabilities has several drawbacks. First, it does not make for good projects, either from the point of view of management or from the point of view of the tenants. Second, it makes the projects almost impossible to site.
- Shelter + Care is good in that you can serve both families and individuals with the same program.
- Support service dollars should be included in the grant and the match should be flexible (i.e., groups can match whatever they can get local support for). A one-to-one service to housing match is 1) usually too much service; 2) too hard to obtain; 3) requires a service program that HUD cannot evaluate, anyway. Make this section more sensible and you will get better proposals.
- HUD needs to revise annual reporting forms for clients. The reporting system now, which documents service delivery, is labor intensive, non-evaluative, and has no value other than creating paper.
- There should be administrative monies for the administration

of the grant, as well as for the project.

• The critical part of this program is that it targets the hardest to reach and serve. Despite the changes recommended, this targeting, should be retained.



THE NATIONAL ALLIANCE TO END HOMELESSNESS, INC.

National Alliance To End Homelessness
Alternative Authorization Levels For FY 1995 by McKinney Act Strategies

Recommended Authorization Levels by Program	HUD's McKinney Act Consolidation	Modified McKinney Act Consolidation	McKinney Act Categorical Programs
Homeless Assistance Grants Program	\$1.020 billion	\$537 million	0
Emergency Shelter Grant Program	0	0	\$75 million
Safe Havens	0	0	\$50 million
Rural Homeless Assistance	0	0	\$37 million
Supportive Housing	0	0	\$345 million
Shelter + Care	0	\$278 million	\$278 million
SRO Section 8 Mod Rehab	0	\$205 million	\$205 million
Innovative Homeless Demonstration Program	\$100 million	0	\$30 million (National Competition)
Emergency Food & Shelter Program	\$130 million (operated by HUD)	\$130 million (operated by FEMA)	\$130 million (operated by FEMA)
Total	\$1.25 Billion (HUD)	\$1.120 Billion (HUD) \$130 Million (FEMA)	\$1.120 Billion (HUD) \$130 Million (FEMA)

QUESTIONS FROM CHAIRMAN HENRY B. GONZALEZ TO
MS. NAN P. ROMAN

April 26, 1994, hearing held by the
Subcommittee on Housing and Community Development,
entitled "H.R. 3838, Housing and Community
Development Act of 1994"

If the Administration was to consolidate any of the McKinney programs, which programs do you think should be consolidated or, at the least, should have conforming statutory requirements?

How do your members in the communities feel about the concept of consolidating the McKinney programs? Do they believe that this will enhance their ability to meet the needs of the homeless on their area?

Though no distribution system is perfect, the FEMA Emergency Food and Shelter Program appears to funnel more funding into rural areas than other homeless programs? Is that impression correct?



THE NATIONAL ALLIANCE TO END HOMELESSNESS, INC.

ANSWER TO QUESTIONS FROM CHAIRMAN HENRY B. GONZALEZ

FROM NAN P. ROMAN, VICE PRESIDENT, NATIONAL ALLIANCE TO END HOMELESSNESS

Q: If the Administration was to consolidate any of the McKinney programs, which programs do you think should be consolidated or at the least, should have conforming statutory requirements?

A: Although in the past the members of the Alliance have opposed the consolidation of the McKinney programs at HUD, this opposition has been directed primarily at turning the funds over to local government as opposed to making the programs easier to use. Absent consolidation, we believe that all of the HUD and non-HUD McKinney programs should have conforming statutory requirements so that they are easier to use and to combine.

If the HUD McKinney programs are consolidated, we believe that it may be preferable to hold out the SRO Section 8 Mod Rehab program in order to continue federal targeting to this much-needed housing resource. In addition, you may wish to consider holding out the SRO portion of the Shelter + Care program for the same reason.

Q: How do your members in the communities feel about the concept of consolidating the McKinney programs? Do they believe that this will enhance their ability to meet the needs of the homeless in their areas?

A: As stated above, they are mixed on this issue. They would be grateful for the opportunity to be able to plan a coordinated local effort based on reliable funding. On the other hand, they are concerned that the program will be run through local government. Few local governments have taken a responsible position on the issue of homelessness. Our members are very concerned that if the issue is politicized locally, it will mean that only the more popular to serve groups (such as families with children) will receive assistance. More difficult to serve, less popular populations (single adult males with alcohol or drug abuse illnesses or AIDS, for example), which make up the bulk of the homeless population in most areas, will be neglected.

For this reason, we are very supportive of HUD's proposal to include local planning boards, involving nonprofits and homeless people, in the decision-making process. Indeed, without involvement of such groups in decision-making, we would be unable to support the consolidation process.

- Q: Though no distribution system is perfect, the FEMA Emergency Food and Shelter Program appears to funnel more funding into rural areas than other homeless programs? Is that impression correct?
- A: It is definitely the case that the Emergency Food and Shelter Program has done a good job of getting funds into rural areas. 68% of the jurisdictions funded this fiscal year were non-metropolitan areas and approximately 20% of EFS dollars are going to non-metro areas.

NATIONAL LAW CENTER
ON HOMELESSNESS & POVERTY

Testimony of
Maria Foscarinis, Director
National Law Center on Homelessness and Poverty

Before the
Subcommittee on Housing and Community Development
Committee on Banking, Finance and Urban Affairs
United States House of Representatives

April 26, 1994

Good morning, Mr. Chairman. My name is Maria Foscarinis and I am the founder and Director of the National Law Center on Homelessness and Poverty. The Law Center is a private, non-profit legal advocacy organization that advocates on behalf of homeless and poor Americans. We advocate for policies that address the underlying causes of homelessness and our mission is to end homelessness in America. Mr. Chairman, we appreciate the leadership and commitment you and the committee have demonstrated in addressing homelessness.

The Housing Reauthorization bill provides an opportunity to examine what is and isn't working in federal housing programs. As the Administration has been slow in getting the bill to advocates and to this Committee, we cannot comment yet on the specifics of the bill, other than the McKinney reorganization provision, which we just received last Friday.

Nonetheless, the reauthorization is a significant opportunity to improve federal efforts to assure decent housing for all Americans. And it comes at a time when we are very clear on where we need to go. The Speaker's Task Force on Homelessness' report identified needs and made recommendations. The recommendations are a benchmark against which proposed legislation may be measured.

I. Recommendations for Housing Reauthorization bill

A. Recommendations for McKinney Consolidation

The Department of Housing and Urban Development (HUD) is proposing a consolidation of the McKinney Act programs administered by HUD, as a way to improve program coordination. While increased coordination of McKinney programs is an admirable goal, it is important to note that the McKinney Act was and still is meant to be an emergency step. While we support an increase in funding for federal efforts to address homelessness, this increase should go toward permanent housing.

Regarding the Administration's proposed McKinney consolidation, while the National Law Center is not opposed to consolidation as a concept, we have concerns about how it will be implemented. Any consolidation of HUD administered McKinney Act programs must meet certain minimum standards. The following outlines our assessment of the proposal:

1. Enforceability.

The proposal does not clearly state that the requirements in the proposed statute are enforceable. Given the history of uneven implementation of the McKinney Act by Federal, state and local governments, this could be problematic. Congress should make clear that all requirements are enforceable by private right of action.

2. Roles of homeless persons and non-profits in the planning process.

The proposal's guaranteed seats for homeless persons, advocates and direct service providers on a local board is an important step to ensure that homeless persons and non-profits are part of the decision-making process. However, to ensure meaningful and constructive participation, there should be a clear statutory directive to local governments to work with such boards. One other potential problem is the requirement that the local government certify that the board's proposals are consistent with the local government's comprehensive planning document, which may weaken the board's ability to develop a plan. Congress should ensure the board has a role in developing the comprehensive planning document.

3. Hard-to-serve populations must be served as well as easier to serve populations.

The proposal requires the board to conduct an assessment of need, which is critical for developing the proposed services. Congress should make clear that such an assessment must be accurate and inclusive of the entire homeless population.

4. Mechanism for local advocates and homeless persons to challenge a locality's plan during HUD's review of the plan.

The proposal requires the Secretary to establish some mechanism for hearing complaints but leaves it entirely to the Secretary to establish the procedures for the complaint process. Basic elements of the process should be defined by Congress.

5. Timelines.

Where the statute requires the Secretary to develop procedures or promulgate regulations, Congress should set clear timelines.

6. Non-discrimination against homeless persons.

There is nothing that specifically addresses this concern. Localities that receive federal funds should not be permitted to enforce laws or practice policies directed against homeless persons and should be required, as part of the certification requirements, to state that such discrimination will not occur.

In addition to the proposed reorganization of HUD administered McKinney programs, the Administration is proposing to transfer the Emergency Food and Shelter Program (EFSP) from the Federal Emergency Management Agency to HUD. Such a transfer seems likely to cause needless complication without significant improvement. There may be ways in which to improve the EFSP

program -- such as increasing accountability and including a broader representation of non-profits on the local boards -- however, simply transferring the program makes little sense.

B. Beyond McKinney

Most fundamentally, the McKinney programs are not enough. In order to end homelessness, we must go beyond McKinney to address the underlying causes of homelessness.

1. The recommendations in the report of the Speaker's Task Force on Homelessness are an important step towards addressing the causes. Congress should enact the recommendations in the Task Force's report. Among the recommendations that fall under the Housing Committee's jurisdiction:

- Increase funding of Section 8 programs to provide housing vouchers to homeless individuals and those at risk of homelessness.
- Allow the use of FHA multi-family mortgage insurance for single room (SRO) occupancy buildings.
- Reinstate the 30-day right of first refusal for homeless organizations in the Department of Housing and Urban Development's single family property disposition program.
- Establish a similar program, modeled on HUD's single family property disposition program for properties held by the RTC and FDIC.

2. There are additional steps, consistent with Task Force recommendations, that Congress should take:

a. Prevention measures

As recognized in the Task Force report, prevention measures are needed to stop the cycle of homelessness. It is quicker, cheaper, more effective and more humane to address homelessness by preventing it, rather than trying to address it once people have become homeless. Congress should:

- Increase funding for the Family Unification Program to provide more Section 8's and to provide for mediation for at-risk tenants to resolve landlord-tenant disputes.
- Create a revolving Federal Emergency Mortgage Assistance fund to assist homeowners at risk of homelessness due to loss of employment, illness or other emergency.
- Establish a refundable low-income housing credit for taxpayers who pay more than 30 percent of their earned income in rent (provided that their rental costs do not exceed HUD established fair market rents).

- Require Public Housing Authorities (PHAs) to comply with obligation to lower rents upon a tenant's loss of income.
- Require PHAs to notify tenants of emergency rental assistance if eviction proceedings are initiated.
- Use HUD's proposed consolidated planning document to encourage localities and states to provide incentives for private construction of new affordable housing through linkage and inclusionary zoning. Make approval of the consolidated plan contingent, in part, on whether states and localities have demonstrated such incentives for private construction.

b. Provide assistance for currently homeless persons.

For those persons who have already fallen into homelessness, we must improve efforts to help them out of homelessness. Congress should:

- Enhance public sector job creation by creating a new requirement, modeled after Section 3 of HUDA of 1968, that would require that, to the maximum extent practical, public works projects should employ homeless and very low-income persons.
- Require HUD to set up a "Housing Opportunity Hotline" to provide information about all federally held properties available for sale or lease. Model it on RTC's "Housing Opportunity Hotline" operated for Texas properties.

c. Protect civil rights.

- Prohibit jurisdictions receiving federal funding such as McKinney funding and Community Development Block Grant funding, from enacting or enforcing laws that discriminate against homeless people.

II. Conclusion

By enacting these provisions, the federal government will be taking a significant step towards ending homelessness in America. As always, we stand ready to work with the committee. Thank you for inviting our testimony.

QUESTIONS FROM CHAIRMAN HENRY B. GONZALEZ TO
MS. MARIA FOSCARINIS

April 26, 1994, hearing held by the
Subcommittee on Housing and Community Development,
entitled "H.R. 3838, Housing and Community
Development Act of 1994"

Have any other Federal programs that you are aware of set up the kind of coalition of providers and advocates in each community that the Emergency Food and Shelter program has?

How do you suggest, or do you, suggest that the Congress move the McKinney programs from that of Emergency programs to permanent assistance programs? Should there be emergency assistance programs at the federal level considering that there realistically there will always be a group large or small of people in need of shelter?

Though no distribution system is perfect, the FEMA Emergency Food and Shelter Program appears to funnel more funding into rural areas than other homeless programs? Is that impression correct?

RESPONSE OF MARIA FOSCARINIS TO QUESTIONS FROM CHAIRMAN HENRY B. GONZALEZ

1. I am not aware of other federal programs that set up a similar structure. I want to note, however, that while such coalitions are very important, local FEMA boards have not always been as inclusive as they should be.

2. Congress could make a series of changes in the current reauthorization of the McKinney Act programs that would move the federal response to homelessness towards longer-term solutions. I am enclosing specific suggestions for such changes.

In addition, Congress could enact additional measures to provide long-term relief. The Recommendations in the Report of the Speaker's Task Force on Homelessness should be introduced as omnibus legislation. With the leadership of its primary sponsors, the bill should be guided through the relevant committees and enacted.

As identified in the Task Force Report, increased resources for affordable housing must be a component of long-term solutions. Modifying the home mortgage deduction for the top quartile of the income distribution, by reducing the current homeownership interest deduction as income rises, would free up \$15-25 billion for this purpose.

Emergency assistance should not be discontinued until permanent solutions are in place. At current levels, emergency aid is insufficient: McKinney programs now meet only a tiny fraction of the need. Simply recrafting the existing McKinney aid will not work; instead, significantly more resources must be put into prevention and long term solutions. Even after such solutions are in place, some emergency aid may be necessary; given adequate preventive and long-term measure, this should be a relatively limited component of the federal response.

3. The main distinguishing feature of the FEMA program is the speed with which funds are distributed and committed, in part because of statutorily set deadlines.

TESTIMONY OF
LT. COLONEL EUGENE SLUSHER
NATIONAL RESOURCE DEVELOPMENT and
DISASTER SERVICES SECRETARY
for
THE SALVATION ARMY
Before the
SUBCOMMITTEE ON HOUSING and
COMMUNITY DEVELOPMENT
WASHINGTON, D.C.
Tuesday, April 26, 1994

Testimony of Lt. Colonel Eugene Slusher

Prepared for the Subcommittee on Housing and

Community Development

Tuesday, April 26, 1994 - 10:00 a.m.

INTRODUCTION

Good morning. I am Lt. Colonel Eugene Slusher, National Resource Development and Disaster Services Secretary for The Salvation Army.

I really appreciate the opportunity of testifying before the Subcommittee on Housing and Community Development today.

Last week I attended a subcommittee briefing related to the feeding of the hungry in other parts of the world.

I listened to the reports being shared by organizations that are actively engaged in aiding the displaced, homeless and hurting individuals in other countries.

I serve as one of the National Emergency Food and Shelter Board members, and monthly at the meetings, we review similar problems that exist in our country.

In the 12 phases of this program, we have noticed the manner in which this funding is used to meet the needs on the grassroots level across our land.

The Salvation Army serves in over 10,000 centers in this country, and in many of these facilities, we operate programs that are geared to the homeless and needy.

Our mission since 1865 has been to network with as many resources possible to make the communities in which we function, better places to live and work.

This motivation continues and is reinforced in our involvement in many communities by serving on the Local Boards, and also as one of the local recipient agencies providing services associated with this wonderful program.

On behalf of the millions of individuals who have been served in these years since the program commenced, we thank you, the members of this committee, who have been instrumental in the furtherance of this program.

These much needed funds help many organizations to provide the transitional housing and other sheltering programs that make it possible for the unemployed to have a roof over their heads.

The challenge continues for the McKinney Act and this funding to be available to the homeless and unemployed.

The concern that we represent today is to, once again, report the success of this program and urge that it be allowed to continue in the same style that is so effective.

This is one of the most successful programs of US Government has established. Because of the uniqueness of the mechanism of utilizing a partnership between FEMA, national agencies and the Secretariat of the United Way of America, response is quick to meet many of the needs of the local communities.

Over 10,500 local agencies, both non-profit and governmental, are providing direct services to the homeless and hungry throughout the nation.

A couple of weeks ago I attended one of the training sessions for new local recipient agencies. At these sessions, instruction was provided for the total program and the manner in which it operates.

Some of those I spoke with were from rural communities in nearby states. They were excited because, with increases in the unemployment rate, they actually had the wherewithal to help people. The expression of appreciation was evident on their faces.

These training sessions are conducted in many locations to allow for the continuance of the guidelines to be maintained in this program that unites local, state and federal bodies.

The value of promoting self esteem to those who have lost much because of lack of employment and other circumstances cannot be measured. Yet, this is one of the side effects for good that is associated with this program.

Because this is a networking program, many other wonderful side effects are realized. Many cross cultured groups work together in order to serve those with language problems. Yet, they are aided with the material support they need.

Many long lasting community projects no longer associated with this program developed, and now operate as follow up resources for those no longer in need of these funds.

Helping to establish public/private coalitions and partnerships in the communities reach far beyond the Emergency Food and Shelter Program. Yet, through the years, this program served as the catalyst for such activities.

Because the homeless population has a wealth of gifted individuals who face crisis situations, with the support received from the agencies providing emergency food and shelter services, when they return to gainful employment, they become productive citizens.

Block grants are not available for such individuals, and other programs providing assistance usually are not geared to serve in this arena.

The success stories are many, and could fill volumes of books because of the program and its track record. So, I repeat, we hope this wonderful program can remain intact.

If it is shifted from FEMA, I would heartily recommend that it goes with all of the ingredients: the maintaining of the National Board structure and administration by the Secretariat of the United Way of America.

This network alone has been part of the overall success of the operation. Individuals who know the country, maintain necessary insight to the trends and developments with the poverty and unemployment level. When the funding is available, within a matter of 60 days, the funds are in the hands of the local resources.

Development of any new process for delivery would hinder and cause the program to not reach its intended purpose. Since the program is not broken, why should we attempt to fix it?

It is interesting to note that the present Phase Twelve (Phase XII) funding is estimated in providing nearly 25,000 meals.

This year 83,261,673 meals will be provided through food pantries and other food providing sources. Nearly 4,000,000 nights' lodgings will be possible as well as nearly 290 million rent/mortgage payments made to keep people from being evicted.

Over 201,000 utility payments will be possible, and we could go on and on with such reports. As part of this testimony graphics are attached related to such services.

Because it has been said that 60% of the homeless are children, you can see our concern in that this program does not suffer any breakdown in the delivery system which has aided so many young people in the years of operation.

When I mentioned earlier about the side effects of this program, we have many in job training programs that have been made possible as adjunct activities associated with some of the shelters that operate under this umbrella.

Many of those helped in recent years are also now in the job market, their springboard being through services made possible through the Emergency Food and Shelter program.

Hopefully, these grassroots level local shelters, as well as the large community based facilities, would still be eligible to receive support if this program were reassigned to another governmental agency. Some of the guidelines for services from HUD do not open the doors for the same outlets offered in the EF & S program.

This past winter was among the most severe in recent times. It was necessary to provide all types of services to those who are classified as homeless and helpless. Our organization engaged in daily meal runs through our mobile feeding facilities, meeting individuals at their point of need with hot, nutritious meals. Many of those people do not frequent shelters, but they were served with nourishing meals.

Of the many homeless programs that exist within the McKinney Act, as well as outside this scope of service, this program is one that really functions to meet all types of needs facing our communities.

Again, I refer to the structure of this movement. We should not forget that its success again returns to the bringing together of people at the local level. Local government officials, non-profit providers, community leaders, homeless advocates, the homeless and formerly homeless are able to work together in this operation.

Thus, the community has no reason for not having success and improving, because of the ability to be associated with such a unique governmental/community operation.

This EF & S program gets its funding annually to the streets in the winter months. The spending is completed within the one year time frame, and more than 95% of these funds are handled by non-profit service providers.

This program was created by Congress, and has reached the full purpose for which Congress had intended.

The movement of this program should only be done following extensive consultation with the National Board and the Local Boards. And, hopefully, this consultation should take place before any move of this program takes place.

Optimistically, those responsible for such a move would not allow this to happen without such consideration.

You can be proud of this program which was created by many of you serving on this committee. You should know that a vibrant coalition exists as a result of this positive program that needs to continue serving our country.

We need to remind you again, that there is not an "anti-HUD" position to keep this program based in the FEMA family. We are encouraged by some of the directions being taken by HUD.

Rather, we are concerned that in such a move, it would be felt that the program needed to be changed. And, I repeat, this is among the most successful people-serving programs available today. We do not want to see those we serve left without such a resource.

HUD seems to be moving in the direction of wanting to fund non-profits and coalitions contributing to others. This is also a needed step to help with the total homeless picture.

We are just anxious to remind this committee and others that because of the Local EF & S Boards and Local Recipient Organizations (LROs) have demonstrated their compassionate zeal and responsibility during these past years, we do not want to see this end.

Also the people working with this program have taken its concepts and combined them with local commitment with an accountability level that has produced magnificent partnership. This is vital to the success of any ongoing program.

The needs still exist for the establishment of facilities to meet the needs of the homeless, the handicapped, the hurting. We hope these will be addressed in the near future.

The members of the National Board all represent national agencies who are busily engaged daily in meeting other aspects of individuals' needs. Serving on the National Board enhances our abilities to meet these challenges.

In the graphics which are also attached to my remarks, you will see the manner in which such funding has been provided. You will be enlightened as to the full extent of previous phases of this valuable people oriented resource.

Where the pockets of unemployment of developed, this program established by you and those who have worked with you, has prevailed.

Do not lessen, in any way, the Emergency Food and Shelter Program. Be assured, each of us associated with this program welcome any new approaches. We are eager to look at HUD's ideas and wish to gauge their impact. But, as we look to these new ideas, let's be careful that we do not let go of our present program which has such a valuable history.

Again, we say, not from an emotional link to FEMA, but because of the successful manner in which they have directed our ship thus far, allowing for dedicated decision making. And because of the cadre of individuals in small communities and large cities who have received effective and practical support.

Finally, if the program moves to HUD, and if it is not to be changed, why is it necessary to move from its present berth in an organization that is known for providing good and needed emergency assistance to the public?

We, on the National Board, assure you that we will continue to render our best service if such a move takes place, and assure you that we are not attempting to balk in any way.

We are desirous of not disrupting this vital link for the local providers, and desire to maintain the program while new areas of cooperation are explored.

Thank you again for allowing me this privilege, and as you review the other materials provided, just be aware of the impact made upon this country because of this dynamic and efficient government resource that is still needed in our great country.

Emergency Food and Shelter National Board Program

Phase 12 - Fiscal Year 1994

Key Dates

Signed into law by President Clinton	10/28/93
Award from FEMA to National Board	11/17/93
Award notifications mailed to Local Boards	11/10/93
Return of first Local Board Plan	11/19/93
First payments mailed	12/01/93

Processing Statistics

Amount of funds allocated	\$130,700,000
Board Plans received through 4/19/94	2,521
Board Plans completely processed	2,420
Board Plans being processed*	101
Payments through 4/19/94**	12,948
	\$80,549,315

* number includes primarily Local Boards not in compliance with guidelines

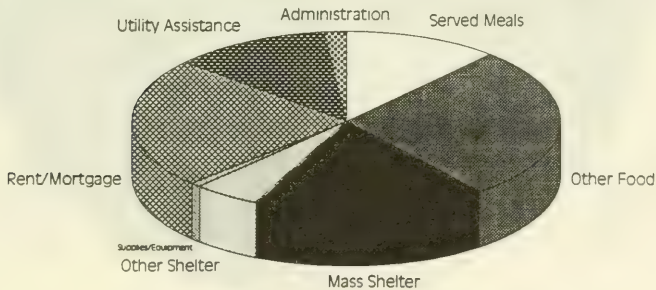
** each funded organization receives two or three payments depending upon award size

Emergency Food and Shelter Program Phase XII (FY'94) Estimated Local Spending

Served Meals	\$15,169,396.01	11.7%	24,658,294 meals
Other Food	\$36,154,406.74	27.9%	83,261,673 meals
Mass Shelter	\$22,448,274.85	17.3%	3,567,070 nights
Other Shelter	\$6,446,577.88	5.0%	662,055 nights
Supplies/Equipment	\$1,181,828.75	0.9%	
Rehabilitation	\$102,359.00	0.1%	
Rent/Mortgage Assistance	\$30,473,410.12	23.5%	289,967 bills
Utility Assistance	\$15,631,403.17	12.1%	201,236 bills
Administration	\$1,852,681.48	1.4%	

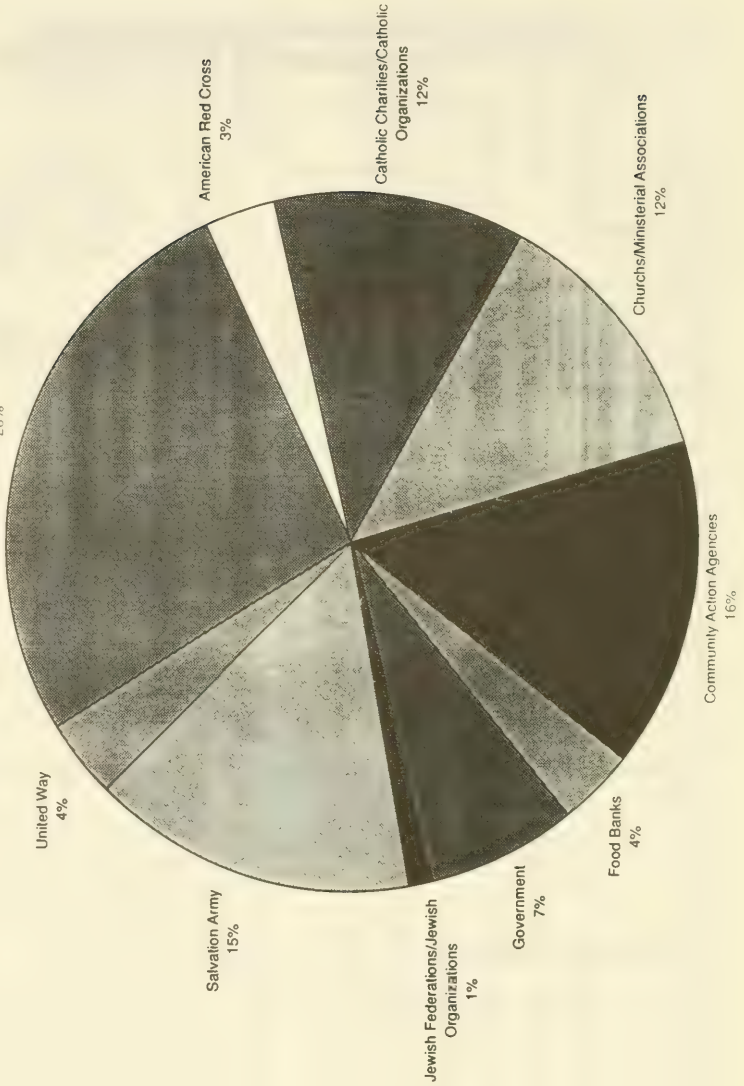
Total \$129,460,338.00

4/19/94



Rehabilitation spending is too low to appear

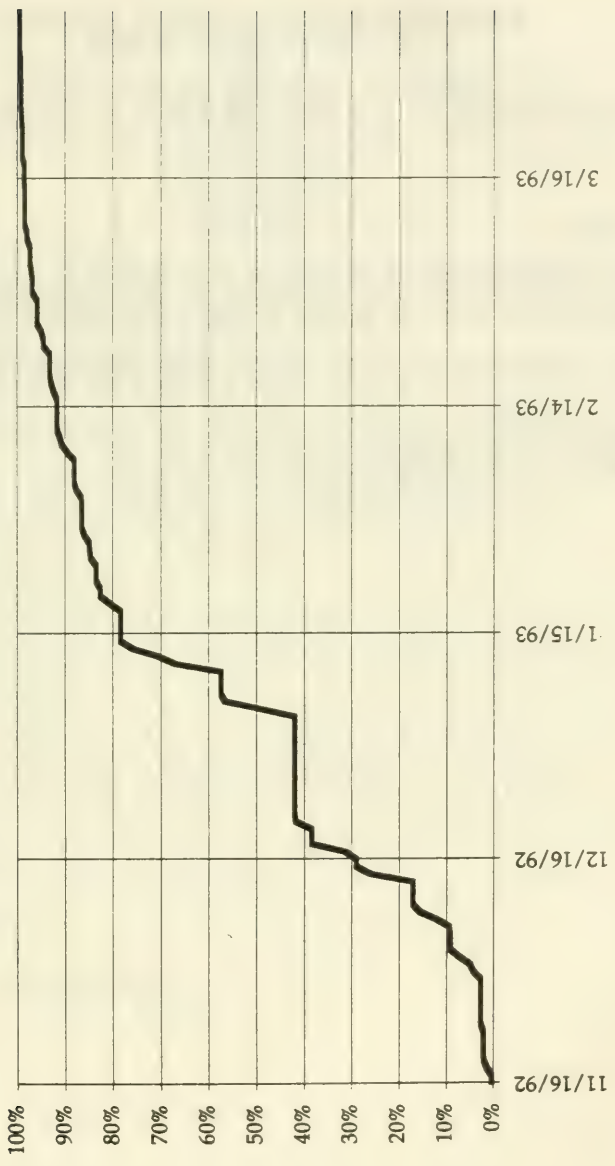
Emergency Food and Shelter Program Fund Distribution by Agency Type



Emergency Food and Shelter National Board Program
Phase XI Spending Estimates

Rank	Artist	Album	Label	Genre	Release Date	Chart Weeks	Peak Position	Certification	Streams (Millions)	Sales (Thousands)	Revenue (Millions)	ROI (%)
1	Drake	Scorpion	Republic	Rap	2019	10	1	Platinum	1,200	1,200	\$120	100%
2	Ariana Grande	Thank U, Next	Republic	Pop	2019	8	1	Platinum	1,100	1,100	\$110	100%
3	Lil Nas X	Montero (Push Ups)	Columbia	Pop	2020	6	1	Platinum	1,000	1,000	\$100	100%
4	The Weeknd	After Hours	Republic	R&B	2020	5	1	Platinum	900	900	\$90	100%
5	Dua Lipa	Future Nostalgia	Sony	Pop	2020	4	1	Platinum	800	800	\$80	100%
6	Justin Bieber	Justice	Republic	Pop	2021	3	1	Platinum	700	700	\$70	100%
7	Olivia Rodrigo	SOUR	Geffen	Pop	2021	2	1	Platinum	600	600	\$60	100%
8	Cardi B	Cardi B	Atlantic	Rap	2018	1	1	Platinum	500	500	\$50	100%
9	Travis Scott	High School Musical 2	Republic	Rap	2019	1	1	Platinum	400	400	\$40	100%
10	Billie Eilish	When the Party's Over	Interscope	Pop	2021	1	1	Platinum	300	300	\$30	100%
11	Post Malone	Beerbongs & Bentleys	Republic	Rap	2019	1	1	Platinum	200	200	\$20	100%
12	Drake	Scorpion	Republic	Rap	2019	1	1	Platinum	100	100	\$10	100%
13	Ariana Grande	Thank U, Next	Republic	Pop	2019	1	1	Platinum	50	50	\$5	100%
14	Lil Nas X	Montero (Push Ups)	Columbia	Pop	2020	1	1	Platinum	25	25	\$2.5	100%
15	The Weeknd	After Hours	Republic	R&B	2020	1	1	Platinum	15	15	\$1.5	100%
16	Dua Lipa	Future Nostalgia	Sony	Pop	2020	1	1	Platinum	10	10	\$1	100%
17	Justin Bieber	Justice	Republic	Pop	2021	1	1	Platinum	5	5	\$0.5	100%
18	Olivia Rodrigo	SOUR	Geffen	Pop	2021	1	1	Platinum	3	3	\$0.3	100%
19	Cardi B	Cardi B	Atlantic	Rap	2018	1	1	Platinum	2	2	\$0.2	100%
20	Travis Scott	High School Musical 2	Republic	Rap	2019	1	1	Platinum	1	1	\$0.1	100%
21	Billie Eilish	When the Party's Over	Interscope	Pop	2021	1	1	Platinum	0.5	0.5	\$0.05	100%
22	Post Malone	Beerbongs & Bentleys	Republic	Rap	2019	1	1	Platinum	0.25	0.25	\$0.025	100%
23	Drake	Scorpion	Republic	Rap	2019	1	1	Platinum	0.1	0.1	\$0.01	100%
24	Ariana Grande	Thank U, Next	Republic	Pop	2019	1	1	Platinum	0.05	0.05	\$0.005	100%
25	Lil Nas X	Montero (Push Ups)	Columbia	Pop	2020	1	1	Platinum	0.025	0.025	\$0.0025	100%
26	The Weeknd	After Hours	Republic	R&B	2020	1	1	Platinum	0.01	0.01	\$0.001	100%
27	Dua Lipa	Future Nostalgia	Sony	Pop	2020	1	1	Platinum	0.005	0.005	\$0.0005	100%
28	Justin Bieber	Justice	Republic	Pop	2021	1	1	Platinum	0.0025	0.0025	\$0.00025	100%
29	Olivia Rodrigo	SOUR	Geffen	Pop	2021	1	1	Platinum	0.001	0.001	\$0.0001	100%
30	Cardi B	Cardi B	Atlantic	Rap	2018	1	1	Platinum	0.0005	0.0005	\$0.00005	100%
31	Travis Scott	High School Musical 2	Republic	Rap	2019	1	1	Platinum	0.00025	0.00025	\$0.000025	100%
32	Billie Eilish	When the Party's Over	Interscope	Pop	2021	1	1	Platinum	0.0001	0.0001	\$0.00001	100%
33	Post Malone	Beerbongs & Bentleys	Republic	Rap	2019	1	1	Platinum	0.00005	0.00005	\$0.000005	100%
34	Drake	Scorpion	Republic	Rap	2019	1	1	Platinum	0.000025	0.000025	\$0.0000025	100%
35	Ariana Grande	Thank U, Next	Republic	Pop	2019	1	1	Platinum	0.00001	0.00001	\$0.000001	100%
36	Lil Nas X	Montero (Push Ups)	Columbia	Pop	2020	1	1	Platinum	0.000005	0.000005	\$0.0000005	100%
37	The Weeknd	After Hours	Republic	R&B	2020	1	1	Platinum	0.0000025	0.0000025	\$0.00000025	100%
38	Dua Lipa	Future Nostalgia	Sony	Pop	2020	1	1	Platinum	0.000001	0.000001	\$0.0000001	100%
39	Justin Bieber	Justice	Republic	Pop	2021	1	1	Platinum	0.0000005	0.0000005	\$0.00000005	100%
40	Olivia Rodrigo	SOUR	Geffen	Pop	2021	1	1	Platinum	0.00000025	0.00000025	\$0.000000025	100%
41	Cardi B	Cardi B	Atlantic	Rap	2018	1	1	Platinum	0.0000001	0.0000001	\$0.00000001	100%
42	Travis Scott	High School Musical 2	Republic	Rap	2019	1	1	Platinum	0.00000005	0.00000005	\$0.000000005	100%
43	Billie Eilish	When the Party's Over	Interscope	Pop	2021	1	1	Platinum	0.000000025	0.000000025	\$0.0000000025	100%
44	Post Malone	Beerbongs & Bentleys	Republic	Rap	2019	1	1	Platinum	0.00000001	0.00000001	\$0.000000001	100%
45	Drake	Scorpion	Republic	Rap	2019	1	1	Platinum	0.000000005	0.000000005	\$0.0000000005	100%
46	Ariana Grande	Thank U, Next	Republic	Pop	2019	1	1	Platinum	0.0000000025	0.0000000025	\$0.00000000025	100%
47	Lil Nas X	Montero (Push Ups)	Columbia	Pop	2020	1	1	Platinum	0.000000001	0.000000001	\$0.0000000001	100%
48	The Weeknd	After Hours	Republic	R&B	2020	1	1	Platinum	0.0000000005	0.0000000005	\$0.00000000005	100%
49	Dua Lipa	Future Nostalgia	Sony	Pop	2020	1	1	Platinum	0.00000000025	0.00000000025	\$0.000000000025	100%
50	Justin Bieber	Justice	Republic	Pop	2021	1	1	Platinum	0.0000000001	0.0000000001	\$0.00000000001	100%
51	Olivia Rodrigo	SOUR	Geffen	Pop	2021	1	1	Platinum	0.00000000005	0.00000000005	\$0.000000000005	100%
52	Cardi B	Cardi B	Atlantic	Rap	2018	1	1	Platinum	0.000000000025	0.000000000025	\$0.0000000000025	100%
53	Travis Scott	High School Musical 2	Republic	Rap	2019	1	1	Platinum	0.00000000001	0.00000000001	\$0.000000000001	100%
54	Billie Eilish	When the Party's Over	Interscope	Pop	2021	1	1	Platinum	0.000000000005	0.000000000005	\$0.0000000000005	100%
55	Post Malone	Beerbongs & Bentleys	Republic	Rap	2019	1	1	Platinum	0.0000000000025	0.0000000000025	\$0.00000000000025	100%
56	Drake	Scorpion	Republic	Rap	2019	1	1	Platinum	0.000000000001	0.000000000001	\$0.0000000000001	100%
57	Ariana Grande	Thank U, Next	Republic	Pop	2019	1	1	Platinum	0.0000000000005	0.0000000000005	\$0.00000000000005	100%
58	Lil Nas X	Montero (Push Ups)	Columbia	Pop	2020	1	1	Platinum	0.00000000000025	0.00000000000025	\$0.000000000000025	100%
59	The Weeknd	After Hours	Republic	R&B	2020	1	1	Platinum	0.0000000000001	0.0000000000001	\$0.00000000000001	100%
60	Dua Lipa	Future Nostalgia	Sony	Pop	2020	1	1	Platinum	0.00000000000005	0.00000000000005	\$0.000000000000005	100%
61	Justin Bieber	Justice	Republic	Pop	2021	1	1	Platinum	0.000000000000025	0.000000000000025	\$0.0000000000000025	100%
62	Olivia Rodrigo	SOUR	Geffen	Pop	2021	1	1	Platinum	0.00000000000001	0.00000000000001	\$0.000000000000001	100%
63	Cardi B	Cardi B	Atlantic	Rap	2018	1	1	Platinum	0.000000000000005	0.000000000000005	\$0.0000000000000005	100%
64	Travis Scott	High School Musical 2	Republic	Rap	2019	1	1	Platinum	0.0000000000000025	0.0000000000000025	\$0.00000000000000025	100%
65	Billie Eilish	When the Party's Over	Interscope	Pop	2021	1	1	Platinum	0.000000000000001	0.000000000000001	\$0.0000000000000001	100%
66	Post Malone	Beerbongs & Bentleys	Republic	Rap	2019	1	1	Platinum	0.0000000000000005	0.0000000000000005	\$0.00000000000000005	100%
67	Drake	Scorpion	Republic	Rap	2019	1	1	Platinum	0.00000000000000025	0.00000000000000025	\$0.000000000000000025	100%
68	Ariana Grande	Thank U, Next	Republic	Pop	2019	1	1	Platinum	0.0000000000000001	0.0000000000000001	\$0.00000000000000001	100%
69	Lil Nas X	Montero (Push Ups)	Columbia	Pop	2020	1	1	Platinum	0.00000000000000005	0.00000000000000005	\$0.000000000000000005	100%
70	The Weeknd	After Hours	Republic	R&B	2020	1	1	Platinum	0.000000000000000025	0.000000000000000025	\$0.0000000000000000025	100%
71	Dua Lipa	Future Nostalgia	Sony	Pop	2020	1	1	Platinum	0.00000000000000001	0.00000000000000001	\$0.000000000000000001	100%
72	Justin Bieber	Justice	Republic	Pop	2021	1	1	Platinum	0.000000000000000005	0.000000000000000005	\$0.0000000000000000005	100%
73	Olivia Rodrigo	SOUR	Geffen	Pop	2021	1	1	Platinum	0.0000000000000000025	0.0000000000000000025	\$0.00000000000000000025	100%
74	Cardi B	Cardi B	Atlantic	Rap	2018	1	1	Platinum	0.000000000000000001	0.000000000000000001	\$0.0000000000000000001	100%
75	Travis Scott	High School Musical 2	Republic	Rap	2019	1	1	Platinum	0.0000000000000000005	0.0000000000000000005	\$0.00000000000000000005	100%
76	Billie Eilish	When the Party's Over	Interscope	Pop	2021	1	1	Platinum	0.00000000000000000025	0.00000000000000000025	\$0.000000000000000000025	100%
77	Post Malone	Beerbongs & Bentleys	Republic	Rap	2019	1	1	Platinum	0.0000000000000000001	0.0000000000000000001	\$0.00000000000000000001	100%
78	Drake	Scorpion	Republic	Rap	2019	1	1	Platinum	0.00000000000000000005	0.00000000000000000005	\$0.000000000000000000005	100%
79	Ariana Grande	Thank U, Next	Republic	Pop	2019	1	1	Platinum	0.000000000000000000025	0.000000000000000000025	\$0.0000000000000000000025	100%
80	Lil Nas X	Montero (Push Ups)	Columbia	Pop	2020	1	1	Platinum	0.00000000000000000001	0.00000000000000000001	\$0.000000000000000000001	100%
81	The Weeknd	After Hours	Republic	R&B	2020	1	1	Platinum	0.000000000000000000005	0.000000000000000000005	\$0.0000000000000000000005	100%
82	Dua Lipa	Future Nostalgia	Sony	Pop	2020	1	1	Platinum	0.0000000000000000000025	0.0000000000000000000025	\$0.00000000000000000000025	100%
83	Justin Bieber	Justice	Republic	Pop	2021	1	1	Platinum	0.000000000000000000001	0.000000000000000000001	\$0.0000000000000000000001	100%
84	Olivia Rodrigo	SOUR	Geffen	Pop	2021	1	1	Platinum	0.0000000000000000000005	0.0000000000000000000005	\$0.00000000000000000000005	100%
85	Cardi B	Cardi B	Atlantic	Rap	2018	1	1	Platinum	0.00000000000000000000025	0.00000000000000000000025	\$0.000000000000000000000025	100%
86	Travis Scott	High School Musical 2	Republic	Rap	2019	1	1	Platinum	0.0000000000000000000001	0.0000000000000000000001	\$0.00000000000000000000001	100%
87	Billie Eilish	When the Party's Over	Interscope	Pop	2021	1	1	Platinum	0.00000000000000000000005	0.00000000000000000000005	\$0.000000000000000000000005	100%
88	Post Malone	Beerbongs & Bentleys	Republic	Rap	2019	1	1	Platinum	0.000000000000000000000025	0.000000000000000000000025	\$0.0000000000000000000000025	100%
89	Drake	Scorpion	Republic	Rap	2019	1	1	Platinum	0.00000000000000000000001	0.00000000000000000000001	\$0.000000000000000000000001	100%
90	Ariana Grande	Thank U, Next	Republic	Pop	2019	1	1	Platinum	0.000000000000000000000005	0.000000000000000000000005	\$0.0000000000000000000000005	100%
91	Lil Nas X	Montero (Push Ups)	Columbia	Pop	2020	1	1	Platinum	0.0000000000000000000000025	0.0000000000000000000000025	\$0.00000000000000000000000025	100%
92	The Weeknd	After Hours	Republic	R&B	2020	1	1	Platinum	0.000000000000000000000001	0.000000000000000000000001	\$0.0000000000000000000000001	100%
93	Dua Lipa	Future Nostalgia	Sony	Pop	2020	1	1	Platinum	0.0000000000000000000000005	0.0000000000000000000000005	\$0.00000000000000000000000005	100%
94	Justin Bieber	Justice	Republic	Pop	2021	1	1	Platinum	0.00000000000000000000000025	0.00000000000000000000000025	\$0.000000000000000000000000025	100%
95	Olivia Rodrigo	SOUR	Geffen	Pop	2021	1	1	Platinum	0.0000000000000000000000001	0.0000000000000000000000001	\$0.00000000000000000	

**Emergency Food and Shelter National Board Program
Phase 11 Board Plan Processing - Percent of Dollars Processed By
Thirty-Day Period**



QUESTIONS FROM CHAIRMAN HENRY B. GONZALEZ TO
LT. COLONEL EUGENE SLUSHER

April 26, 1994, hearing held by the
Subcommittee on Housing and Community Development,
entitled "H.R. 3838, Housing and Community
Development Act of 1994"

Given your positions on working on this program at the national and local level over the last ten years, has the commitment of the FEMA staff shifted with the change in Administrations?

Both of you have worked on other federal programs. How does the bureaucracy of this program compare with other federal programs?

How long must a community wait for its funding once they have determined the type of assistance they will provide under the Emergency Food and Shelter program?



BRAMWELL H. TILLSLEY
General

THE SALVATION ARMY

KENNETH L. HODDER
National Commander

(Founded in 1865)

WILLIAM BOOTH, FOUNDER

NATIONAL HEADQUARTERS

615 Slaters Lane
Alexandria, VA 22313
Telephone (703) 684-5500
Fax (703) 684-3478

Mailing Address
P.O. Box 269
Alexandria, VA 22313

May 13, 1994

The Honorable Henry Gonzalez
Attn: June Lawrence
Subcommittee on Hsg. & Comty Development
B 303 Rayburn House Office Building
Washington, D. C. 20515

Re: Questions by Chairman (sent May 5, 1994)

Question One

Regarding the commitment of the FEMA staff...regardless of any changes in FEMA personnel, this program has never been hampered in any way. All staff members have been totally committed to assist in the direction of this important program.

Question Two

The bureaucracy of this program is such that the board is totally aware of every aspect of the program. By having outside sources from the PVO arena working with the federal staff the closeness of the relationship prevails for good results.

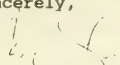
Question Three

Once the program is finalized and signed into being, within 60 days the funding is in the local agencies account to provide services. This present phase was only 33 days from the signing of President Clinton until the money was made available in the communities.

Thank you for your support in this connection.

God Bless You today and everyday.

Sincerely,


Lt. Colonel Eugene Slusher
RESOURCE DEVELOPMENT SECRETARY

TESTIMONY OF

KEVIN W. HOOPER

DIVISIONAL SOCIAL SERVICES SECRETARY

THE SALVATION ARMY
EASTERN PENNSYLVANIA AND DELAWARE

before

SUBCOMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

UNITED STATES HOUSE OF REPRESENTATIVES

WASHINGTON, D.C.

APRIL 26, 1994

Testimony of Kevin W. Hooper

Prepared for the Subcommittee on Housing and

Community Development

Tuesday, April 26, 1994 - 10:00 a.m.

Good morning, I am Kevin Hooper, Divisional Social Services Secretary for The Salvation Army. Our Divisional Headquarters is located in the City of Philadelphia and has the responsibility for the management of Salvation Army services throughout Eastern Pennsylvania and the State of Delaware.

I welcome this opportunity of testifying before the Subcommittee on Housing and Community Development today. I come before you to share our opinions and our concerns in regard to the proposed transfer and programmatic change of the Emergency Food and Shelter Program (EFSP) to the Department of Housing and Urban Development.

As part of my responsibility with The Salvation Army I have had the opportunity of have been actively involved in the Emergency Food and Shelter Program (EFSP), as a board member serving on the Local Board in the State of Delaware and currently on the Local Board of City of Philadelphia. Additionally, I have been able to see firsthand how effective this program has been in meeting the immediate needs of persons living on our streets and those families who find themselves at risk of losing their homes.

The Salvation Army in Eastern Pennsylvania and Delaware currently receives Emergency Food and Shelter Program (EFSP) funding which is distributed in (30) communities, in rural and urban areas. Out of the (30) communities in which we are involved in the direct distribution of EFSP funding, (80%) of these communities are in rural areas. Most of the communities in which these funds are distributed are in cities or towns of less than 60,000 residents.

I am sure that we all can agree rural poverty is not as noticeable as the poverty which has impacted American cities. Families and individuals become isolated in rural communities and do not have the opportunity to access a social services delivery system which operates more effectively within urban communities.

There are many roadblocks for the rural poor to obtain emergency social services which can help them stabilize, if only for a few months, the crisis confronting them.

The Emergency Food and Shelter (EFSP) in the communities in which we serve has become part of a system which would be as effective if these funds were not available.

In rural communities we need to take a broad view of the positive outcomes which have occurred since the inception of the Emergency Food and Shelter (EFSP). With the creation of Local Boards, community organizations, homeless advocates, community leaders and concerned people have been able to identify the most effective network to have the greatest impact in addressing community problems.

The array of services which have evolved in partnership in local communities include food pantries, distribution centers, mass feeding sites, along with the provision of emergency shelter, rent and mortgage assistance as well as utility payments.

The Emergency Food and Shelter (EFSP) has become much more than a housing program and that is critical to keep in mind, since it has enable organizations such as The Salvation Army to support families in maintaining the ownership of their home, the rental of their apartment, the opportunity to provide for day to day necessities. These services have prevented countless thousands of families and individuals from falling into the abyss of homelessness and hopelessness.

Local Boards not only are able to readily address their own community's problems, I believe an unexpected outcome of Local Boards has been the ability to provide administrative and management support to non-profit organizations and other caring groups who might not otherwise have had such involvement in the community.

I have personally been involved in newly created coalitions and agency networks that did not exist years ago in analyzing and discussing more effective approaches in dealing with poverty within our communities.

It has been encouraging to see establishment within many of our rural communities of coalitions developing a continuum of services which address the crisis emergency needs of families and individuals as well as exploring long-term solutions.

We believe this is important for communities to have a sense of control and ownership of how programs and funding should be used to address their local needs.

witnessed the incredible inclusion of thousands of volunteers who have personally been involved in preparing and delivering meals to individuals who are in their homes. Many of these individuals are older and are very frail. I have seen volunteers organize to package food for mass distribution to individuals throughout rural areas who could not obtain these type of services due to the lack of public transportation.

The faith community has responded by making available their facilities as well as members of their congregation to be an active participant in meeting the needs within their communities.

I believe that over the past eleven years, the Emergency Food and Shelter Program (EFSP) has brought individuals into the process who were unaware of the severity of poverty within their community. It has been able to educate and sensitize people to how important it is to care for their neighbors.

Over the past five years The Salvation Army in Eastern Pennsylvania and Delaware has distributed approximately \$3,300,000 in Emergency Food and Shelter Program (EFSP) funding. We believe that of every one dollar of EFSP funding we are able to leverage four dollars. A result of the ability to leverage additional funding we have in fact been able to distribute \$13,200,000 of assistance over the past five years.

We believe this is the type of investment that the Federal Government must continue to make, we believe that government needs the support of strong public/private coalitions to create partnerships in addressing the issue of poverty throughout this country.

I would like to discuss a few of the advantages of the current system as it is designed:

- * The administration fee in distributing these (EFSP) funds is less than (3%).
- * The system provides for a "fast track" distribution of funding, well before traditional dollars could be obtained.
- * The system provides immediate cash flow for smaller non-profit organizations or community agencies who need immediate dollars in order to provide immediate services.
- * Current (EFSP) funding supports service providers that focus on prevention, funding for prevention services always seem to disappear through government agencies.
- * Local non-profit organizations and agencies are able to quickly respond to unexpected social problems within their communities. Local Boards, from year to year, have the flexibility to prioritize how (EFSP) funds should be utilized.

- * Local Boards are able to bring a different point of view which might not be understood by larger government bureaucracies if the system is to be changed.

I would like to express a few concerns which have been shared with me by my colleagues and agencies that I have spoken with throughout the (30) communities in which we provide services concerning to the transfer of the Emergency Food and Shelter Program to the Department of Housing and Urban Development.

Many of my associates feel that there would be several drawbacks if the program was to be altered:

- * The merging of EFSP funds into the Emergency Shelter Grant Program (ESGP) would leave out a number of agencies and organizations that traditionally do not receive (ESGP) funding. Many agencies that operate seasonal support services would not qualify for ESGP funding, or would want to apply.
- * HUD is extremely familiar with transitional and permanent housing, however, they are not familiar with emergency shelters and emergency support services such as food, rent/mortgage assistance, utility payments and programs which provide congregate meals.
- * The effect of cutting or altering current services will be devastating to people that this program was intended to serve.
- * The Salvation Army as well as many other organizations have been greatly served by HUD, but unfortunately, the extensive eligibility requirements of HUD cannot be met by many chronically homeless men and women who we provide direct services to. Transferring (EFSP) funding could seriously compromise the effectiveness of our unique and helpful services to people at risk.

Changes are taking place all around us, throughout government as well as the social services community. We are in need of new approaches which ultimately create stronger partnerships. I would say to you this morning that the programs and agencies which I represent are eager to meet with HUD and discuss new ideas and to gauge their impact on individuals to whom we provide support.

But, as we consider new opportunities and initiatives, it just doesn't seem to make much sense to redefine a program that has been able to rapidly deliver funds for services, as

well as to respect the local decision making process.

We believe that this is one program that has been able to deliver funds into rural areas as well as big cities with very little bureaucracy which has enabled the funds to be received quickly.

In closing, I would like to share with you what I believe is the collective opinion of the Voluntary Council for Emergency Assistance in Philadelphia. We believe that the Emergency Food and Shelter Program (EFSP) has some unique features. It delivers help quickly and effectively to countless persons in thousands of communities facing hunger and homelessness.

For ten years, a coalition forged between Congress, the Federal Government, as represented by FEMA and six highly credible and effective national non-profit agencies, has set policy and managed a very flexible and responsible national program.

The local decision making which has been built into the fund distribution process has assured the greatest possible flexibility in providing money in each eligible jurisdiction to the most needed programs and beneficiaries.

To tamper with this program, a very effective partnership between the public and private sectors would be at risk. This partnership is duplicated thousands of times over in local communities across this country, resulting in a very strong national network which is effective at both local and national levels. This network, we believe, could be at serious risk.

We implore your assistance and consideration in keeping the Emergency Food and Shelter Program (EFSP) in tact and operating in the effective manner which it has done for more than ten years. We would ask you to make the best decision for the constituents who you represent.

Thank you again for allowing me this privilege.

QUESTIONS FROM CHAIRMAN HENRY B. GONZALEZ TO
MR. KEVIN W. HOOPER

April 26, 1994, hearing held by the
Subcommittee on Housing and Community Development,
entitled "H.R. 3838, Housing and Community
Development Act of 1994"

Given your positions on working on this program at the national and local level over the last ten years, has the commitment of the FEMA staff shifted with the change in Administrations?

Both of you have worked on other federal programs. How does the bureaucracy of this program compare with other federal programs?

How long must a community wait for its funding once they have determined the type of assistance they will provide under the Emergency Food and Shelter program?

RESPONSES FROM MR. HOOPER TO
QUESTIONS FROM CHAIRMAN HENRY B. GONZALEZ

April 26, 1994, hearing held by the
Subcommittee on Housing and Community Development,
entitled "H.R. 3838, Housing and Community
Development Act of 1994"

1. Given your positions on working on this program at the national and local level over the last ten years, has the commitment of the FEMA staff shifted with the change in Administrations?

Having represented The Salvation Army at the local level here in the City of Philadelphia and throughout Eastern Pennsylvania over the past ten years, I can emphatically state that the commitment of the FEMA staff has not shifted at all with the change of Administrations in Washington, D.C.

It is because of this consistency of program/fund management that has made the FEMA Program so effective today. Local communities do not have to anticipate major programmatic or philosophical changes within the program as Administrations come and go from elected office.

2. Both of you have worked on other federal programs. How does the bureaucracy of this program compare with other federal programs?

In my opinion, the bureaucracy connected with the FEMA Program, both on a national and local level, is fairly minimal when compared to other federal programs. This is one of few federal programs that places the responsibility in carrying out the objectives of the program to local governing boards. Turnaround time from the National FEMA Board is minimal when requests are submitted for advice from local FEMA Board's which have the responsibility for oversight of the FEMA Program in communities throughout the country.

Policies are clear cut and the application process takes place quickly with very few delays in making appropriate decisions and funding allocations.

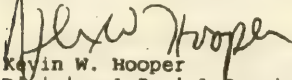
3. How long must a community wait for its funding once they have determined the type of assistance they will provide under the Emergency Food and Shelter program?

It has been my experience over the majority of the past ten years, that communities do not need to wait more than two to four weeks for funding to arrive once the type of assistance and service providers have been identified by the local FEMA Boards.

If a service provider has fulfilled its obligations of compliance with the FEMA Program in the previous phase of allocation funding being distributed, and there are no problems with the delivery of services by a provider agency, the release of additional funds takes place very quickly to meet the immediate needs of community organizations and individuals whom they serve.

The Salvation Army has never experienced a delay in receiving funding once its application has been approved to receive operating dollars.

Respectively submitted,



Kevin W. Hooper
Divisional Social Services Secretary
The Salvation Army - Eastern Pennsylvania and Delaware

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Consortium for Citizens with Disabilities

TESTIMONY

REGARDING

HOUSING AND COMMUNITY DEVELOPMENT REAUTHORIZATION LEGISLATION

SUBMITTED BY

THE CONSORTIUM FOR CITIZENS WITH DISABILITIES HOUSING TASK FORCE

American Association on Mental Retardation
 American Network of Community Options & Resources
 American Rehabilitation Association
 Autism National Committee
 Bazelon Center for Mental Health Law
 International Association of Psychosocial Rehabilitation Services
 National Association of Developmental Disabilities Council
 National Association of Protection and Advocacy Systems
 National Association of State Directors of Developmental Disabilities Services
 National Association of State Mental Health Program Directors
 National Community Mental Health Care Council
 National Mental Health Association
 Paralyzed Veterans of America
 The Arc, formerly the Association for Retarded Citizens of the United States
 United Cerebral Palsy Associations, Inc.

April 26, 1994

Presented by:

Kate Rollason
 Executive Director
 The Arc of Southern Maryland

INTRODUCTION

People with disabilities have an urgent need for low-cost housing.

People with disabilities make up one of the largest minority populations in the nation, but unlike other minority groups, people with disabilities are not always set apart by demographic categories. However, while disability may transcend age, sex, race, and national origin, more often than not, people with disabilities are people who fall into the low to very low income range. Data compiled by the United States Bureau of the Census for the report *Americans with Disabilities 1991-1992* demonstrate that 45 percent of people with severe disabilities over age 15 have low incomes. The data also demonstrate that only 27.6 percent of people with severe disabilities are employed and that among those people with disabilities who need assistance with various life activities, the employment rate is only 20.6 percent.

Independence, integration, and productivity are values and goals of the disability community. Public policy concerning the lives of people with disabilities must reflect these values and be designed to achieve these goals. The lack of available, affordable, and accessible housing has long been an increasingly critical problem for people with disabilities, one that has limited not only their access to living independent and integrated lives in the community but also their access to productive employment and other community benefits.

Like all individuals, people with disabilities vary in their abilities, interests, desires, and needs over the span of their lifetime. Also, like all individuals, people with disabilities have the same need for decent, safe, affordable, and appropriate housing.

However, because of their income status, people with disabilities particularly rely on many programs that are under the auspices of the Department of Housing and Urban Development in order to access housing options in the community. Unfortunately, many of these programs have not been given a high priority by the U.S. Department of Housing and Urban Development or by the Congress.

NEED

In 1987, The Arc conducted a national waiting list survey. It showed that 60,000 people with mental retardation were on waiting lists for community-based residential services. While this was a nationwide survey, it did not include data from several states and it only measured residential needs of people with mental retardation. Thus, it understated actual need. In 1992, reports to The Arc and other disability organizations indicated that over 46,000 people were on waiting lists in only eight states. This number included only people with mental retardation and other developmental disabilities so it understated the actual needs of all individuals with disabilities.

According to information compiled by the National Association of State Directors of Developmental Disabilities Services, Inc., the number of individuals participating in the Community Supported Living Arrangements (CSLA) program more than tripled during the twelve-month period that ended Sept. 30, 1993, growing from 624 to 1,900. CSLA is a Medicaid funded program that provides individualized services to people with developmental disabilities who live in their own home or apartment (or their family's home or apartment). At present, unfortunately, the CSLA program is statutorily restricted to providing funding only to eight states--California, Colorado, Florida, Illinois, Maryland, Michigan, Rhode Island, and Wisconsin. Among the ongoing problems noted by the eight CSLA states is the difficulty in finding affordable housing for program participants. The eight CSLA states reported that they expected the number of participants to top 3,000 by June, 1994.

Another example of the need for an array of housing options in the community is demonstrated by current data (Feb. 1994) from the state of New Jersey. According to The Arc of New Jersey, 4,182 people are on the overall waiting list for housing. Of these, over 1,000 fall into what is called, "category one" meaning that they are persons considered in danger of harm or serious regression in their current living situation or they are homeless. In 1987, fewer than 100 people fell into this category.

Many people with mental retardation and developmental disabilities presently live at home with aging parents and are threatened with future institutionalization if residential options or supports are not made available in the community. Current information from the state of Maryland indicates that 50 percent of the individuals on the

residential services waiting list presently are living at home with parents over age 60.

Many younger people with physical disabilities spend their days languishing in inappropriate and restrictive congregate settings such as nursing homes because there are no physically accessible community residential or support services available to them.

Other individuals still remain in large group homes and other congregate settings because there are no smaller or individual options available to them in the community. In addition, over 71,000 people with mental retardation continued to live in state-operated institutions in 1993 at an average cost to states of \$81,861 per year per individual. Of those 71,000 people, the vast majority have plans to live in the community. For the past twenty years, the residents of these facilities have been moving into the community at a rate of only 5-8 percent annually and waiting lists for community housing continue to grow. Even at that low rate of movement into the community, approximately 5,000 more units of housing would be needed nationwide just to meet the needs of people who are moving each year from institutions into the community.

People with disabilities have a range of housing needs and desires just as those without disabilities. However, as mentioned earlier, these needs and desires are often more difficult to fulfill because there is the overlay of having a low or very low income that limits choice and enforces a continued dependence on federal or other types of assisted housing. In addition, people with disabilities, as do members of other minority groups, continue to be confronted with discriminatory policies and practices in both the public and private housing markets.

People with disabilities, just like other individuals, have a need for a variety of supports. The supports that they need change, as they do for people without disabilities, throughout their lives.

o Some people with disabilities need a full array of supports such as personal assistance, help with managing money, transportation, etc. to live in the community.

o Others need limited supports, such as drop-in assistance to check on things they need or transportation to help them get to work.

o Others still need only generic supports, such as rental assistance or food stamps, because of their low incomes.

It is critical, at this juncture, for us to make the point that while supportive housing programs are of major importance to the disability community, not all people with disabilities are in need of "supportive housing" as characterized by current, specific HUD programs. That is why we continue to stress that the provision of housing must be based on individual need not on the categorical determination that because a person has a physical or mental disability, they always need to live someplace "special".

SECTION 811 SUPPORTIVE HOUSING FOR PERSONS WITH DISABILITIES

The Section 811 Supportive Housing Program, formerly a part of the Section 202 program, has for years been one of the only federal sources of funding for housing for people with disabilities. It is a very valuable resource to the disability community but one that needs to grow and change to both address the increased demand for decent, affordable, accessible housing for people with disabilities and to reflect the evolving philosophy of the disability movement.

For many years, Section 811 was used to provide only group homes and independent living facilities (small apartment buildings) in communities. Initially, group homes could be built for up to 15 residents and ILFs continue to be permitted for up to 24 individuals. The disability community, working to change state and federal disability policy over the years, has endeavored to make the Section 811 program more responsive to people with disabilities and their need for a wider range of housing options than those limited options for which the program was originally designed.

Congress was responsive to these efforts by the disability community and in the National Affordable Housing Act in 1990 expanded the eligible options available under the Section 811 program to include the acquisition of units in condominium, cooperative, and other multi-family developments, as well as to include properties held by the Resolution Trust Corporation. We were extremely pleased with these actions and looked forward to using the Section 811 program to try new and innovative ways to provide a range of integrated, scattered-site housing in the community.

Unfortunately, HUD was less than forthcoming in its guidance to both housing advocates and housing sponsors on how to utilize these new options. For some potential housing sponsors, the frustration level, which had always been high in trying to navigate the HUD waters, rose even higher as they were thwarted in their efforts to try and do something new and exciting. While it appears that HUD is finally attempting to provide additional useful guidance to sponsors, these new options have, to this point, been underutilized.

In the Housing and Community Development Act of 1992, a new tenant-based rental assistance component was added to the Section 811 program. This new assistance was designed to help compensate for the loss of housing resulting from the HCDA's support for excluding non-elderly residents with disabilities from housing that is now being converted to elderly-only.

The disability community raised two concerns in 1992:

- o that the inclusion of this new component under the Section 811 program must not force individuals who do now (or could in the future) live in the community without supports into a program such as Section 811 which is designed to provide supports.

- o that this new component not take needed funds from the traditional Section 811 capital advance and project-based rental assistance component--a program that adds to the existing housing stock.

These concerns are still valid today.

Due to the ever increasing need for a range of housing options within the community and the absence of these options, we support the Section 811 tenant-based rental assistance program as a tool to once more move the entire Section 811 program forward consistent with the thinking of the disability community. Now, if implemented, not only could Section 811 be used to build or acquire new housing in a variety of integrated forms, but it could offer a new option--access to tenant-based rental assistance--giving individuals another choice....an important principle of the disability philosophy.

The CCD Housing Task Force has several recommendations related to the Section 811 program and will be glad to provide you with additional information in each of these areas as the reauthorization process proceeds.

o We recommend that the program in its entirety (both the capital advance/project based rental assistance and the tenant-based rental assistance components) be reauthorized with adequate and specified funding authorization levels to ensure the viability of both components.

o We recommend that there be equity (a 50-50 split) in the division of authorized funds between the Section 811 program and the Section 202 program based on the demonstrated need for more housing for people with disabilities in the community. In order to document this need beyond the information provided in this testimony, we urge Congress to direct HUD to follow through with the statutory requirement in Section 661 of the HCDA calling for a study "to determine the extent to which federal housing programs serve elderly families, disabled families, and families with children in relation to the need of such families who are eligible for assistance under such programs."

o We recommend that Congress direct HUD to comply with the Congressional intent demonstrated in expanding the range of eligible Section 811 program options in the NAHA and the HCDA.

o We recommend that Congress direct HUD to streamline the application and approval process for Section 811 making it reflect the fact that this is a grant program and no longer a loan program.

CONGREGATE HOUSING SERVICES PROGRAM

We support the reauthorization of the Congregate Housing Services Program and the recommended authorization level for the program included in H.R. 3838. There is a continuing and growing need to provide people with severe disabilities of all ages with an array of personal assistance and individualized support services to enable them to live independently in the community. This program can help to do just that.

CHSP is an important way that public housing and Section 202 providers can offer vital supports. Its goals are consistent with the President's approach to health care and long term services reform in that CHSP funds can be used for retrofitting housing units, renovating public and common areas, and providing supportive services to help people with

disabilities of all ages to remain at home in their own communities.

Sometimes the availability of certain services is all a person needs to be able to be independent. In St. Mary's County, Maryland, The Arc has been a CHSP grantee since 1982. The services provided through this grant, such as meal preparation, housekeeping, transportation, and personal assistance have allowed The Arc to serve people who were once not considered "appropriate" to live in the community. This augmentation to staffing has meant that the agency could bring people back from institutions or prevent them from having to go to one at all. These individuals have flourished in the community. Each of them attends some type of day program; several have developed the skills to move on to more independent apartments and are working at jobs in the community with the necessary supports.

Without the CHSP grant, it is unlikely that The Arc would have been able to serve these individuals with more severe disabilities. Because of the grant, The Arc has been able to go beyond just keeping people safe and in acceptable health to focus on helping people to develop communication and ambulation skills, to become involved in the community, to rebuild family connections, and to participate in vocational pursuits.

As an example, in one of the CHSP/HUD funded homes, The Arc serves four women, all with the label of severe or profound mental retardation, with extremely limited means of communication, and with histories of behavior problems. One of the women has diabetes, one has hypoglycemia, and one woman has autism. Three of them have spent the major part of their lives in institutions. Each now has an individual diet which can be provided through the CHSP grant. The woman with diabetes has been able to avoid insulin injections because of this positive dietary intervention. Each woman is involved in some type of day program and two of them receive weekly paychecks. In addition, they spent last weekend, not as the recipients of services, but as volunteers with the local Christmas in April project. They were contributors--and it was due in part--to supports received through the CHSP grant.

MCKINNEY PROGRAMS

Even though we are not on the panel dealing with homeless issues, we want to take this opportunity to mention

two McKinney programs of importance to people with disabilities.

The Permanent Housing for Homeless Persons with Disabilities program and the Shelter Plus Care program provide outreach, housing, and supportive services to homeless persons with disabilities. These programs recognize some of the significant challenges that homeless persons with disabilities face, particularly those individuals who are not connected to a support system, such as family, friends, service providers, or advocates.

For example, homeless persons with disabilities often have significant and varying health care needs and some individuals require housing which is accessible to persons who use wheelchairs, or who have visual or hearing impairments. Many individuals also need help applying for public assistance, finding transitional housing placements, arranging for supportive services and ultimately finding permanent housing in communities of their choice. Many of these functions are far beyond the service capacity of most homeless shelter programs. Just as we recognize that some individuals with disabilities need permanent housing combined with supportive services, we also must recognize that many homeless persons with disabilities would not be helped if specialized programs such as the Permanent Housing for Homeless Persons with Disabilities and Shelter Plus Care did not exist.

Funding is also a critical issue for these programs. While this has fluctuated over the years, requests for funding from community-based, non-profit organizations continues to grow. Therefore, we urge the Committee to significantly increase the authorized funding levels for these programs.

OTHER RECOMMENDATIONS

We appreciate this opportunity to testify on behalf of specific "supportive housing" programs, such as Section 811, CHSP, and McKinney programs. We continue to believe that with your assistance, these programs can grow in ways that help to meet the needs of individuals with disabilities who require both a range of housing options and supports to live successfully in the community.

We want to once again reiterate that not all individuals with disabilities need specific "supportive housing" programs. Many must be considered only on the

basis of income, as all others are determined as eligible for HUD public and assisted housing, rental assistance, and home ownership programs.

Therefore, we want to take this opportunity to comment on a program that was included in the President's budget request and which will also be included in the Administration's Housing Choice and Community Investment Act of 1994. This program would provide a set-aside of 5,000 rental assistance certificates for people with disabilities. We are very supportive of this initiative. We believe that the Section 8 set-aside, together with the Section 811 tenant-based assistance program, is a good first step towards increasing the availability of housing and the housing choices of people with disabilities. These two programs will help ensure that the housing needs of those individuals who need support services (Section 811) and those who need only housing assistance (Section 8) will be addressed.

We recommend that PHAs that receive both regular Section 8 certificates and vouchers and this new disability-specific certificate set-aside be required to provide outreach services to individuals with disabilities so that they can effectively access the rental assistance that is available. We also recommend that PHAs be required to undertake outreach to landlords to increase the availability of housing for certificate holders. We are concerned that without this type of outreach and assistance that people with disabilities will be unable to access the certificates and locate appropriate housing, thus resulting in the return of sorely needed certificates and the loss of housing availability.

We would like to add our support for the testimony provided to this Subcommittee by the National Housing Law Project on March 17. The adoption of NHLPP's recommendations will benefit all housing consumers with low and very low incomes, including those with disabilities.

SUMMARY

For more than a decade, the lack of available affordable housing has been an increasingly critical problem for people with disabilities. It is our concern that this will only get worse as PHAs and providers of federally-assisted housing implement their newly found ability to provide housing based on age and disability. Therefore, the continuation and expansion of federally funded and federally

assisted housing programs that ensure prompt new construction, acquisition, and rehabilitation, rental subsidies, and the opportunity for people with disabilities to choose among a variety of community housing options are all of major importance to the disability community.

We thank you for the opportunity to present this statement and we hope that it is helpful in your deliberations.

QUESTIONS FROM CHAIRMAN HENRY B. GONZALEZ TO
MS. KATE L. ROLLASON

April 26, 1994, hearing held by the
Subcommittee on Housing and Community Development,
entitled "H.R. 3838, Housing and Community
Development Act of 1994"

1. Can you comment further on the tension between building housing under the section 811 program and the desires of persons with disabilities to live in "mainstream" housing, not housing for persons with special needs?
2. What would you think of public housing agencies also being eligible sponsors of section 811 developments and nonprofits also as eligible sponsors of section 811 tenant based assistance?

(Ms. Rollason's Responses)

Answers to Questions for Rep. Gonzales concerning housing reauthorization issues: The Consortium for Citizens with Disabilities Housing Task Force: Witness: Kate Rollason, Contacts: Suellen Galbraith (703) 642-6614; Kathy McGinley (202) 785-3388; Bonnie Milstein (202) 467-5730.

1. Can you comment further on the tension between building housing under the Section 811 program and the desires of persons with disabilities to live in "mainstream" housing, not housing for persons with special needs?

The present so-called "tension" which exists between providing housing under the Section 811 program and the need for access to mainstream housing by people with disabilities would not be a problem if there was an adequate supply of affordable housing and adequate funding for supportive services available in the community. In the ideal world, people with disabilities would have a range of options available to them similar to the range presently available to individuals who are elderly. Also, in the ideal world, people with disabilities would not be subjected to the discrimination which they continue to face on a daily basis, discrimination which limits their access to a range of housing options because of fear, prejudice and a dearth of physically accessible housing. This continuing discrimination and stigma is evident from complaints pouring into HUD's Fair Housing Office and litigation by the Civil Rights Division of the Justice Department.

If more "mainstream" housing was available, people with disabilities would have more options, and this tension would cease to exist. However, this is the real world, and the CCD must and will continue to advocate strongly for both the maintenance and the expansion of the various components of the Section 811 program, the increased availability of a range of generic housing options for people with low incomes, including those with disabilities, and for strong enforcement of fair housing laws. As long as the demand for decent, safe, and affordable housing and for community services exceeds the supply, sound public policy requires the availability of a range of housing options for people with disabilities.

As indicated in both the CCD's written and oral testimony, individuals with disabilities have a wide range of housing needs and desires just as those who do not have disabilities. The Section 811 program provides housing and services for individuals with disabilities, including people with mental retardation and other developmental disabilities, people with mental illness, and people with AIDS. In the ideal, a Section 811 project, be it the traditional capital advance/project-based assistance component or the tenant-based assistance component, would seek a "match" between the needs and the choices of each individual with a disability.

The Section 811 program is an important housing and services program designed to meet the needs of those many individuals who have more intense service needs and who want to live in supportive housing. It is not designed to be the only housing option available for people with disabilities with no or very limited service needs. Many of these individuals, if they can access affordable housing because of their low incomes, can live successful and independent lives in the community. Others who need a limited amount of services can do the same if the

services are available to them in their homes, as long as they also have access to affordable housing.

Over the past several years, efforts by the CCD and the Congress have changed the statutory responsibility of the Section 811 program. Now, not only can funds from this program be used to develop group homes and larger independent living facilities. Since the National Affordable Housing Act in 1990, funds are also to be available to acquire, develop, or rehabilitate units in multi-family housing, condominium, and cooperative developments. With the passage of the Housing and Community Development Act of 1992, a tenant-based rental assistance component was added to the Section 811 program. The addition of these options could do much to broaden the choices available to those individuals with disabilities who are the targeted population to be served by the Section 811 program.

HUD implementation difficulties have not permitted the new multi-family, scattered site options to live up to their potential, and the lack of funding by Congress has not allowed the Section 811 tenant-based rental assistance program to get off the ground. But even with these problems, there is a continuing interest in the Section 811 program from non-profit organizations which seek funding to provide a variety of housing options in the community. In 1993, the most current year for which HUD will release data on the Section 811 program, there were 324 applications made for a total of 4,274 units. Of these only 65 percent or 209 projects were funded for a total of 2,493 units.

o In 1987, The Arc conducted a national waiting list survey. It showed that 60,000 people with mental retardation were on waiting lists for community-based residential services. While this was a nationwide survey, it did not include data from several states, and it only measured residential needs of people with mental retardation. Thus, it understated actual need. In 1992, reports to The Arc and other disability organizations indicated that over 46,000 people were on waiting lists in only eight states. This number included only people with mental retardation and other developmental disabilities, so it understated the actual needs of all individuals with disabilities.

o According to information compiled by the National Association of State Directors of Developmental Disabilities Services, Inc., the number of individuals participating in the Community Supported Living Arrangements (CSLA) program more than tripled during the twelve-month period that ended Sept. 30, 1993, growing from 624 to 1,900. CSLA is a Medicaid funded program that provides individualized services to people with developmental disabilities who live in their own home or apartment (or their family's home or apartment). At present, unfortunately, the CSLA program is statutorily restricted to providing funding only to eight states--California, Colorado, Florida, Illinois, Maryland, Michigan, Rhode Island, and Wisconsin. Among the ongoing problems noted by the eight CSLA states is the difficulty in finding affordable housing for program participants. The eight CSLA states reported that they expected the number of participants to top 3,000 by June, 1994.

o Another example of the need for an array of housing options in the community is demonstrated by current data (Feb. 1994) from the state of New

Jersey. According to The Arc of New Jersey, 4,182 people are on the overall waiting list for housing. Of these, over 1,000 fall into what is called "category one", meaning they are persons considered in danger of harm or serious regression in their current living situation, or they are homeless. In 1987, fewer than 100 people fell into this category.

o Many people with mental retardation and developmental disabilities presently live at home with aging parents and are threatened with future institutionalization if residential options or supports are not made available in the community. Current information from the state of Maryland indicates that 50 percent of the individuals on the residential services waiting list presently are living at home with parents over age 60.

o Many younger people with physical disabilities spend their days languishing in inappropriate and restrictive congregate settings, such as nursing homes, because there are no physically accessible community residential or support services available to them.

o Other individuals still remain in large group homes and other congregate settings because there are no smaller or individual options available to them in the community. In addition, over 71,000 people with mental retardation continued to live in state-operated institutions in 1993 at an average cost to states of \$81,861 per year per individual. Of those 71,000 people, the vast majority have plans to live in the community. For the past twenty years, the residents of these facilities have been moving into the community at a rate of only 5-8 percent annually and waiting lists for community housing continue to grow. Even at that low rate of movement into the community, approximately 5,000 more units of housing would be needed nationwide just to meet the needs of people who are moving each year from institutions into the community.

Section 811 serves one purpose; public and generic assisted housing and tenant-based rental assistance serve another purpose. People with disabilities who just happen to be poor and who do not have supportive service requirements, just like others, should have access to HUD programs based solely on income. The inclusion of report language to this effect has been recommended by The Arc in its fiscal year 1995 HUD appropriations testimony to ensure that people with disabilities have access to all available programs for which they are eligible. This type of report language should also accompany the housing reauthorization bill.

There needs to be a sea change of thinking at HUD, the Department of Agriculture and throughout the housing community. People with disabilities need to be viewed as people first and also as potential customers of HUD programs ranging from FHA mortgages to Section 811. Community development organizations which are considering applying for HOME and other generic funds must also include the needs of people with disabilities as they build the case for receiving these funds.

2. What would you think of public housing agencies also being eligible sponsors of Section 811 developments and nonprofits also as eligible sponsors of Section 811 tenant-based assistance?

Section 811 is a program designed for use by nonprofit sponsors. It is one HUD program that, while always having implementation problems from the point of view of the nonprofit sponsor or applicant, has been scandal free. The Clinton Administration has called upon the nation's nonprofit sector to expand the supply of affordable housing. Programs that are working effectively today should not be changed or eliminated. Rather they should be supported and expanded as housing developed by community-based organizations is more responsive to the community's needs, in this case the needs of people with disabilities who also have supportive service requirements if they are to live successfully in the community.

The CCD does not believe that PHAs should have access to Section 811 funding. Such an action would be a slap in the face to the nonprofits that have been working to meet the needs of people with disabilities for so many years, as well as to reshape the program to better meet the philosophy of the disability community. Further, PHAs admitted their inability to provide the necessary range of supportive services to people with disabilities during the "mixing" controversy.

Because of actions taken in the last reauthorization bill, PHAs have the ability to "designate" housing. Giving them access to Section 811 funding would provide them with an incentive to designate "elderly-only" housing and to create "disabled-only" housing since they would now have a new housing development funding stream. Section 811 housing could become the only option available to people with disabilities under such a scenario. It is a long term concern of the CCD that individuals with disabilities, who need little or no supports beyond housing assistance, could end up forced into settings that are inappropriate for them because all other housing options have been lost. Many PHAs remain insensitive to the needs and concerns of all of their tenants, but particularly to people with disabilities. This insensitivity, coupled with the inability to manage housing which included people with disabilities and with the inappropriate linkage between designated housing and the Section 811 program being proposed, makes such a recommendation unacceptable to the CCD.

The Administration bill includes a recommendation for a set-aside of 5,000 tenant-based rental assistance units for people with disabilities. While the CCD strongly supports this recommendation, we have the same concern that the availability of this tenant-based assistance must not be used as an incentive for PHAs to designate housing.

As an example of why a statutory change is needed, we have heard of a situation where a PHA wanted to develop a Section 811 project because no nonprofit in the area was an applicant. The CCD believes that there are probably a number of legitimate reasons why no nonprofit applied for Section 811 funding, including the lack of a demonstrated need for additional "disability-specific" housing in that particular community. Instead, individuals with disabilities are probably integrated within the community, living in public and assisted housing, group living arrangements, with family and friends, or in their own homes. In addition, our interactions with many in the PHA community have led us to believe that the majority of PHAs are not cognizant of the philosophy of integration so important to people with disabilities. Therefore, we also believe that the

last thing we need is a PHA owned and operated large group home as the only alternative housing available to people with disabilities in a community.

One other reason that there may have been no nonprofit applicant is because the program has been so poorly managed by HUD over the years that they may have backed away from attempting to use it. On the other hand, the Section 811 program is not a program with a dearth of applicants. In 1993, there were 324 applications for Section 811 projects for a total of 4,274 units. Of these only 65 percent (or 209 applications) were approved for a total of 2,493 units. In 1991 and 1992, only 43 and 51 percent, respectively, of the applications received were funded. There are consistently more applicants and a greater need for housing than the program can presently meet. When you compare the very limited number of units made available each year with the need for housing for people with all types of disabilities (see question #1), you can see that it is a program that should be strengthened, expanded and kept as a program for nonprofits with a commitment to expanding appropriate and integrated housing options in the community. .

The CCD believes that nonprofits should be eligible sponsors of Section 811 tenant-based rental assistance. Section 811 is a program that links housing with necessary support services so that people with disabilities can live in the community. This linkage is not a skill demonstrated by most PHAs, but it is a skill of disability organizations. This would not be a new concept since under the Shelter Plus Care Program a sponsor-based and a tenant-based rental assistance program are already authorized.

The CCD does not believe that the Section 811 rental assistance certificates should be "owned" by the nonprofit sponsor, therefore limiting choices available to people with disabilities. Instead the sponsor should function as the point of entry and a clearinghouse for the program, establish waiting lists, maintain information on available affordable housing and on a range of appropriate and qualified service providers, provide assistance in matching the two and counseling to help ensure that the housing consumer can successfully meet the tenancy requirements. Nonprofits would need training and technical assistance in setting up this type of system and funding for administrative and management costs would have to be available.



1994 REAUTHORIZATION OF HOUSING AND COMMUNITY DEVELOPMENT
PROGRAMS: SUPPORTIVE HOUSING PROGRAMS

Testimony presented to the

Subcommittee on Housing and Community Development
House Committee on Banking, Finance, and Urban Affairs

by

Francisco Carranco

Member, National Board of Directors
American Association of Retired Persons

April 26, 1994

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Mr. Chairman, I am Francisco Carranco, a member of the National Board of Directors of the American Association of Retired Persons (AARP) from Laredo, Texas. I appreciate the opportunity to appear before you once again to testify on the reauthorization of supportive housing programs serving older persons. AARP's recommendations may be summarized as follows:

Recommendation #1 -- Authorize an Assistant Secretary for Supportive Housing to administer housing and supportive services programs for older persons, persons with disabilities, and homeless families and individuals.

Recommendation #2 -- Make modest reforms to the Congregate Housing Services Program (CHSP) to improve the workability of the program.

Recommendation #3 -- Direct HUD to develop a comprehensive strategy to address the modernization, retrofitting, management, and supportive services needs in the existing stock of housing for older persons under various subsidy programs.

Recommendation #4 -- Expand the authority of the Home Equity Conversion Mortgage (HECM) insurance demonstration.

Recommendation #5 -- Adopt the legislative proposals soon to be submitted to this Subcommittee by the National Commission on Manufactured Housing.

A RECORD OF ACCOMPLISHMENT

Mr. Chairman, I want to begin by expressing AARP's appreciation to you, to Mrs. Roukema, and to the other members of this Subcommittee who have contributed to the crafting and enactment of an impressive package of important initiatives since 1987 to benefit older persons. Mr. Chairman, the efforts of your Subcommittee have improved the lives of tens of thousands of older persons. I would like to enumerate some of those accomplishments for you:

Reform of the Elderly Housing Program -- The landmark 1990 Cranston-Gonzalez National Affordable Housing Act included substantial reforms to the financing of the Section 202 elderly housing program that have produced better projects, shorter times to construction and occupancy, and higher satisfaction from residents and sponsors.

Changes to the Congregate Housing Services Program (CHSP) -- Building on the success of the Congregate Housing Services Program in promoting the independence of frail older persons and persons with disabilities, this Committee permanently authorized the program in 1987 and expanded the program to essentially the entire subsidized housing stock in 1990. As a result, the first

new sites in a decade were added to the CHSP program last year -- including the first ever sites in Farmers Home Section 515 projects. The 1990 Act also authorized the HOPE for Elderly Independence demonstration program, which is modeled after the CHSP but targeted to older renters receiving tenant-based assistance.

Addition of Service Coordinators -- Despite the growing needs for supportive services among the older residents of federally subsidized housing, HUD historically had routinely denied projects the authority to hire service coordinators. The 1990 and 1992 housing acts authorized service coordinators in virtually every type of federally subsidized elderly housing. After two years of funding service coordinators in Section 202 housing, last year's appropriation extended funding to the rest of the HUD programs.

Compromise Solution to the "Mixed Population" Problem -- The policy of housing large numbers of younger persons with disabilities in elderly housing generated perhaps more controversy than any other in the debates over the 1992 Housing Act. The compromise worked out by this Subcommittee and the vigilance of Subcommittee's vigilance in seeking its implementation has been critical to providing humane and reasonable alternative resources for addressing this difficult issue.

Evaluation and Planning -- The Comprehensive Housing Affordability Strategies required by the 1990 Act have been a useful tool in identifying the needs of the elderly and persons with disabilities. Implementation of Title IV of the 1992 Act as recently amended would be an extremely important step in rationally planning for the capital, management, and services needs in the assisted housing stock serving older persons.

Promoting Assisted Living -- Reflecting the tremendous growth in the very old population and important changes in philosophies of giving care, assisted living housing has been the major growth area in the privately financed elderly housing market. Despite this growth, the industry has been hampered by the lack of conventional financing. The 1992 Housing Act provided two potential avenues for financing this promising type of supportive housing. The authority of the Section 232 program was extended to include assisted living, and the interim rule for the risk-sharing demonstration with state housing finance agencies also included assisted living as an eligible type of housing.

Home Repair for Low-Income Homeowners -- The Committee included provisions in the 1990 Housing Act to include home repairs for older and disabled homeowners as an eligible cost under the HOME program and to increase the authorization for the Section 504 rural home repair program. Last year, Congress doubled the funding for the rural home repair grant program to \$25 million.

Providing Credit through Reverse Mortgages -- The home equity conversion mortgage (HECM) insurance demonstration illustrates FHA at its best. By intervening in this largely uncharted mortgage market, FHA has been instrumental in laying the financial foundation for this industry by designing a viable insurance model, stimulating a secondary market through partnership with Fannie Mae, and fostering a mortgage servicing industry. These developments in turn have stimulated interest both from consumers and from major financial groups who have created conventional competitors. Reverse mortgages are now available in 47 states. Roughly 7,000 loans have been made under the HECM program, over half since the beginning of 1993.

Elderly housing programs have produced tangible results in the improved lives of older persons. Taken together these programs represent an impressive array of tools to serve the housing needs of older persons, especially those who are most vulnerable through low incomes and increased frailty. AARP deeply appreciates the leadership and vision shown by this Subcommittee in creating these opportunities. Hundreds of thousands of older persons have enjoyed safe, affordable housing and support to deal with the frailties of advanced age because of your efforts.

REMAINING NEEDS OF OLDER PERSONS

Despite these impressive achievements, much work remains to be done to adequately serve older persons most in need. In light of the continuing needs, the President's budget proposals for fiscal year 1995 are dismaying for the damage they would do to key components of the programs outlined above and for the attitude they reflect about major housing programs. The deep cuts proposed for elderly housing, public housing, congregate services, and service coordinator programs would be devastating to the successful efforts of this Subcommittee over many years. The Administration has attempted to justify its proposed FY 95 cuts by suggesting that "increases in the worst case housing need of the past decade have not occurred in elderly households."

Mr. Chairman, I am not here to ask for major new programs or resources, but I do want to directly address the implication of the Administration's budget justifications that current efforts can be slashed because elderly housing needs have largely been met. These justifications appear to rely on analyses of "worst case" needs by HUD staff that provide a problematic basis for making policy decisions and require a careful review of the issues by this Subcommittee.

Perhaps the most thorough exposition of this approach appeared in an article published in January 1992 in the Journal of Policy Analysis and Management (JPAM) by HUD staffers Khadduri and Nelson. They examine the current targeting of housing assistance and argue that "...whatever happens to the overall rate of

worst-case needs, in view of the persistence of poverty among single-parent families and the relatively small size and higher assets of the population group that will be turning 62 in the next five years, rates of worst case needs are likely to become even higher among families, compared with the elderly, in the near future." Noting that 35 percent of "worst case" elderly renters received rental assistance while only 28 per cent of younger families received such assistance, the article concludes with the recommendation "...that assistance be targeted more heavily to families than at present and less to the elderly..."

Examining the claims of this study one at a time reveals major flaws, leading to incomplete analyses, at best, and damaging policy conclusions to the extent that this attitude is reflected in HUD budget and programming proposals. Major problems of analysis are in the following areas:

Priority Housing Problems -- Using the same data base (the American Housing Survey) and the same definition of "worst case" priority problems, analysis of very low-income renter households not currently receiving rental assistance -- presumably the target population for incremental housing efforts -- indicates that the oldest renters have the greatest need. As the following table indicates, the oldest and youngest renters have much in common:

Age of Head of Household	Percent of Very-Low Income Households with Priority Needs
Under 25	25.7%
25 to 34	14.3
35 to 44	14.4
45 to 64	18.3
65 to 69	25.0
70 to 74	25.8
75 and over	28.3
All ages	18.3

The Number of Low-Income Older Renters -- According to data from the American Housing Survey (AHS), between 1980 and 1989, the number of renters over age 65 with annual incomes below \$5000 (1987 dollars) grew by 86.7 percent. More than three out of five older renters are spending more than 30 percent of their incomes on rent -- a number that rises to 69 percent of women renters who live alone.

Persistence of Poverty -- The Khadduri/Nelson analysis notes the persistence of poverty among single-parent families without also noting that poverty is more persistent in old age than at other ages -- two-thirds higher according to researchers at the Urban Institute. By relying on snapshot measures of income at a given time rather than longitudinal data on the duration of poverty,

this study greatly understates the relative need of older renters. While younger families fluctuate over and under the poverty level depending on employment and marital status, the older poor tend to stay poor.

Cohort Size -- The Khadduri/Nelson article notes the relatively small size of the age cohort that will turn 62 in the next five years without also noting that the number of households headed by a person under 35 will actually decline by 16.5 percent between 1990 and 2000. Moreover, the cohort over 75, the age group among the elderly most likely to need rental assistance, will grow by 26.2 percent during that same time period -- and over 40 percent of that growth will be among those aged 85 and over.

Accumulated Assets -- The quotation above correctly notes that the cohort turning 62 has relatively high assets. The high assets largely reflect the homeownership rate of the young/old cohort and is irrelevant to older renters who have, on average, fewer assets than renters of other ages. According to a 1989 Harvard report, renters aged 65 and over had a median net worth of \$2,593 versus \$6,369 for renters between the ages 35 and 64 and \$4,831 for renters aged 34 and under.

Family Structure and Need -- The article by HUD staff notes the relationship between living arrangements and need among young, single-parent families, but ignores a similar relationship in old age -- 82 percent of the older poor live alone. Poverty is much more likely and more persistent in old age among women living alone, and more than half of women aged 75 and over live alone. In addition, because they came of childbearing age during the Great Depression, women now aged 75 and over have the highest rate of childlessness in American history -- one out of four women of that age had no children. Older women without the informal supports of husband or children are probably disproportionately represented in subsidized housing, as evidenced by a study of the Congregate Housing Services Program (CHSP) study which found that one out of three frail older program participants had no children.

In short, the greatest growth in the older population over the next two decades will be among the oldest old, who tend to be the frailest and poorest households with the weakest informal supports to enable them to live independently. These households tend to benefit most from project-based housing programs -- such as Section 202 and public housing -- especially those enhanced by supportive services such as the Congregate Housing Service Program.

None of these arguments should be taken to deny the seriously deteriorating condition of younger, single-parent families. Their needs must also be addressed. We would also not deny progress in the housing conditions of some segments of the older population. But even Nelson and Khadduri document that roughly two-thirds of older persons with "worst case" needs are still

unserved -- a large unmet need that more than justifies the continued stable funding of the Section 202 program. This need was confirmed by HUD's initial analysis of the first round of CHAS submissions -- 87 percent of which identified elderly housing as an unmet need and 63 percent of which considered elderly housing to be the top priority.

PROPOSALS FOR IMPROVEMENT

While the Association would obviously like to see major expansion in elderly housing programs, we recognize the constraints of the current budget climate, and we are very pleased that the Chairman's reauthorization bill, H.R. 3838, stays the course on funding authorizations for Section 202, public housing, service coordinators, and congregate services. In addition, the Association would like to offer several recommendations for the improvement of existing programs managed by HUD:

Recommendation #1 -- Authorize an Assistant Secretary for Supportive Housing to administer housing and supportive services programs for older persons, persons with disabilities, and homeless families and individuals.

As noted above, major housing reform legislation enacted in 1990 and 1992 has increasingly recognized the importance of linking housing and supportive services for frail older persons and for persons with disabilities. The need for such linkages is perhaps most acutely apparent with respect to persons who are homeless, among whom rates of substance abuse and mental disabilities are very high. Indeed, HUD has imported the term "continuum of care" from the aging literature to refer to the array of housing and supportive services arrangements needed to assist homeless persons.

At the same time that supportive housing and services programs have grown in number and scope, it is important to note that HUD is ill-suited to becoming another Department of Health and Human Services by administering a host of tiny, underfunded supportive services programs. The recent proliferation of services programs administered by HUD largely stems from frustration over the lack of supportive services targeted to residents of subsidized housing by more appropriate agencies. The best way to avoid further proliferation of such programs would be a negotiated division of labor between HUD and agencies charged with providing social services. AARP believes that such policy negotiations require an assistant secretary to negotiate with counterparts in the Departments of Health and Human Services, Education, Labor, Agriculture, and other departments with jurisdiction over services programs that are needed by residents of federally subsidized housing.

Because of the large numbers of older and disabled residents in federally subsidized housing, housing providers and

administrators are increasingly aware of the need to make supportive services available. Service providers, on the other hand, are increasingly aware of the shelter needs of the consumers they serve. Policy makers increasingly understand that providing supportive services to the residents of federally subsidized housing is potentially a very efficient means to target those most in need through delivery of home and community-based services -- consistent with the President's long term care reform proposals.

Finally, an Assistant Secretary for Supportive Housing is needed to bring a more consumer-oriented approach to the highest levels of decision-making at HUD. Currently, assistant secretaries administer offices whose primary constituents are either providers or other levels of government rather than consumers. Consumer needs rarely have a voice as evidenced by the lack of specialized staff, training materials, or management guides for elderly housing produced and managed under various assistant secretaries. This situation is startling given the fact that roughly 40 percent of the housing units subsidized by HUD are occupied by older persons. The same argument could also be made for other consumers. HUD desperately needs a voice at the highest level whose primary constituents are consumers.

Recommendation #2 -- Make modest reforms to the Congregate Housing Services Program (CHSP) to improve the workability of the program.

By providing nonmedical supportive services such as meals, housekeeping, and transportation, the CHSP has successfully prevented or delayed the institutionalization of thousands of frail older persons and persons with disabilities in Section 202 and public housing. The reforms made to the program by this Subcommittee in 1990 made it possible to extend congregate services last year to the first new sites in over a decade.

The Association recommends changes in three areas designed to correct problems with the efficient management of the program. Our first proposal is to change the matching requirement under Section 802 (i)(1)(A) of the National Affordable Housing Act of 1990 from 50 percent to 25 percent. The extraordinarily high matching requirements under this program have been the single biggest impediment to applications by housing providers. At 25 percent, the match would track that required under the HOME program as recently amended. This change should also be made to the Hope for Elderly Independence Program in Section 803 (c)(1). We also recommend greater flexibility in counting in-kind contributions by deleting or increasing the 10 percent cap as stipulated in Section 802 (i)(1)(C).

Our second recommendation is to delete the language with respect to the charges for meal services under Sections 802 (d)(7)(A)(i) and (ii). This provision has proven very difficult to administer

because it is somewhat at odds with the overall calculation of costs to the resident.

Our third recommendation is to amend the definition of "frail elderly" as contained in Section 802 (k)(2) to read "the term 'frail elderly' means an elderly person whose level of functional disability jeopardizes her or his ability to continue to live independently. The Secretary shall, to the extent possible, develop assessment measures of functional disability that will allow this program to be most efficiently used with existing supportive services programs. Owners may may establish additional eligibility requirements (acceptable to the Secretary) based on standards in local supportive services programs." [Changes to existing statute are underlined.] The purpose of this recommendation is to give HUD the flexibility to make the CHSP and other programs that use or reference this same definition work better with existing or potential supportive services programs. The above definition should also replace statutory language in Section 801 (k)(2) [Section 202] and 803 (g)(3) [HOPE for Elderly Independence] in the 1990 National Affordable Housing Act. By reference, the definition change would also affect Section 507 (b)(1) [public housing] of the 1990 Act and Section 511 (b)(3) [assisted living financed under Section 232] of the Housing and Community Development Act of 1992.

Recommendation #3 -- Direct HUD to develop a comprehensive strategy to address the modernization, retrofitting, management, and supportive services needs in the existing stock of housing for older persons under the various subsidy programs.

Virtually every major federal housing assistance program -- including public housing, Section 202 elderly housing, Sections 221(d) and 236 mortgage insurance programs, Section 8 new construction and rehabilitation, and Section 515 rural multifamily -- has financed housing for older persons. By some estimates the network of federally subsidized housing projects for older persons exceeds 20,000, serving roughly 1 million older persons. Despite the long involvement in providing housing to older persons, a 1992 GAO study found a shocking lack of information at HUD on the physical state of the buildings or the supportive services needs of residents in elderly housing. Moreover, the report noted that HUD had no overall plan for the modernization, retrofitting, or management of elderly housing facilities to address the "aging in place" of residents.

Clearly, housing programs should be contributing more fully to the current policy discussions at the federal and state levels over home and community-based supportive services approaches. As noted above, housing programs increasingly are serving the oldest old, women living alone with few or no informal supports from family, and those with disabilities. These are precisely the "risk factors" for ending up in costly institutional care

facilities such as nursing homes.

Title IV of the 1992 Housing Act provides an important assessment tool for evaluating the modernization, retrofitting, management, and supportive services needs in elderly projects financed under Sections 202, 221(d), and 236. HUD needs to develop a strategy for implementing these provisions as recently amended and extending them to elderly housing financed under other programs. Moreover, the data gathered under Title IV should be linked to a detailed strategy for capitalizing the modernization and retrofitting needs of these projects and for building service coordination and provision into project planning and budgets. The Association asks this Subcommittee to include language in the reauthorization act requiring HUD to develop such a comprehensive strategy.

Recommendation #4 -- Expand the authority of the Home Equity Conversion Mortgage (HECM) insurance demonstration.

By allowing older homeowners to borrow against the equity in their homes while delaying repayment until death, sale, or move from the home, reverse mortgages promote independence and self-reliance. The average income of borrowers under the FHA program is under \$7,600, making them ineligible for most types of credit but vulnerable to unscrupulous scam artists. The home equity conversion mortgage (HECM) insurance demonstration provides access to credit to meet basic needs while providing important consumer protections. While more thorough research on consumer uses of reverse mortgages is critically needed, a preliminary survey of reverse mortgage counselors indicates that health care services are a close third behind home repairs and meeting basic needs. Anecdotal evidence also indicates that a substantial number of borrowers were able to avoid foreclosure because reverse mortgages were used to retire existing mortgage debt.

AARP supports provisions that we understand will be included in the Administration's bill to extend the HECM program for another five years and to include authority to provide reverse mortgages on owner-occupied two- to four-unit homes. In addition to urging adoption of these provisions, the Association requests that the Subcommittee include two other provisions in its legislation:

- 1) Expand the insurance authority from 25,000 to 50,000 loans. While the number of loans is not currently near the limit, well over half of the 7,000 loans made under the program have been completed since the beginning of 1993. The number of loans in 1994 has been increasing steadily over comparable months last year. Volume should continue to increase for the foreseeable future with the recent addition of more lenders. With the addition of several states in recent months reverse mortgages are now available in 47 states. Without increasing the number of loans, the program could be faced with lenders opting not to

offer the program in the near future because they fear the drying up of loan authority. The Subcommittee should note that the budget implications of such an expansion are positive in the early years, since the FHA insurance fund benefits from the payment of upfront premiums.

2) Require HUD to conduct a survey of consumers who received the reverse mortgage counseling required by the HECM program and report back to Congress within 180 days of enactment of this Act. The legislation authorizing the HECM demonstration established the purposes in the following terms: "To meet the special needs of elderly homeowners by reducing the effect of economic hardship caused by increasing costs of meeting health, housing, and subsistence needs..." and "To evaluate data to determine need and demand among elderly homeowners for insured and uninsured home equity conversion mortgages..." Despite these charges, HUD has failed to conduct surveys of older consumers who have elected either to take out a reverse mortgage or to decline taking out such a mortgage. HUD has still gathered no information on the consumer needs that drive decisions on this financial instrument or on alternative means that consumers find to meet those needs. Such information is critically important in making public policy decisions as well as programmatic decisions. We strongly encourage this Subcommittee to require that HUD gather this information which is key to its deliberations on this the HECM program.

Recommendation #5 -- Adopt the legislative proposals soon to be submitted to this Subcommittee by the National Commission on Manufactured Housing.

While this hearing is focused on supportive housing programs, we cannot neglect the opportunity to bring the issue of manufactured housing to the Subcommittee's attention. As many on the Subcommittee know, Congress created the National Commission on Manufactured Housing after a very divisive debate on the future of the federal program during debate on the 1990 housing act. AARP board member Helen Boosalis chairs the Commission which has been working hard for the past 16 months to provide a consensus for Congressional action. The Commission will very shortly complete revisions to legislative language which we hope this Subcommittee will adopt. Specifically, the legislation would:

- o Establish construction standards through an independent body operating under a specified consensus process. The standard would be set to yield a level of performance comparable to other types of housing;
- o Require a warranty to cover both manufacturing and installation of homes. The warranty would be backed by a recovery fund in each state, and any manufacturer or retailer that failed to honor the warranty would have its registration withdrawn and would be out of business;

- o Improve the inspection and enforcement system to promote accountability;
- o Allow for the removal of the chassis in homes that are permanently sited and after the standards have been upgraded to account for such a removal; and
- o Improve financing mechanisms to promote more competitive financing to purchasers of manufactured homes.

These provisions required much debate and compromise on all sides, but the result should benefit consumers and promote manufactured housing as a quality, affordable housing option. We strongly urge the Subcommittee to adopt the Commission's recommendations as part of this year's housing reauthorization act.

CONCLUSION

Mr. Chairman, I want to thank you once again for the opportunity to testify before you today and for your leadership in addressing the housing needs of older Americans. We look forward to working with you and the Subcommittee on the successful enactment of this reauthorization act.

QUESTIONS FROM CHAIRMAN HENRY B. GONZALEZ TO
MR. FRANCISCO CARRANCO

April 26, 1994, hearing held by the
Subcommittee on Housing and Community Development,
entitled "H.R. 3838, Housing and Community
Development Act of 1994"

1. Can you comment on Mr. Joseph's proposal to leverage section 202 funds to build additional affordable housing or mixed income communities?
2. What would you think of public housing agencies also being eligible sponsors of section 811 developments and nonprofits also as eligible sponsors of section 811 tenant based assistance?
3. I believe that Texas is one of the states where reverse mortgages are not permitted. What are the other two states and what are the state laws that prevent such mortgages? Have there been any sham transactions that have harmed the elderly under the aegis of the reverse mortgage program?

(From Mr. Francisco Carranco)

RESPONSES TO QUESTIONS FROM CHAIRMAN HENRY B. GONZALEZ

1. Can you comment on Mr. Joseph's proposal to leverage Section 202 funds to build additional affordable housing or mixed income communities?

In general, AARP is very favorable toward the proposals put forward by Reverend Joseph. When Section 202 was being revised in 1990, the Association urged greater flexibility in funding mixed income, and mixed use projects. We believe that low income individuals will be better served in facilities that market to individuals who will pay their own way rather than in income-segregated environments. Some members of Congress opposed this idea and, consequently, the 1990 statutory language contains only a brief reference to financing the construction of "a structure or a portion of a structure" [Sec. 801(b)] -- an option that has never been implemented.

Two caveats must be added to AARP's support. First, allowing Section 202 to leverage other types of financing should not serve as an excuse to raid the funds targeted to serving low-income older people. Deficit reduction and budget rules are driving too many programming decisions with detrimental effects. Improved housing opportunities -- not budget gaming -- should be the goal of any discussion to further reform Section 202.

Second, any changes to the financing should not jeopardize the fundamental financial security of the program. Section 202 is arguably the most successful program in the HUD inventory. That successful track record should not be jeopardized due to risky financing approaches. The risks can be minimized in two ways. Federal mortgage insurance for the balance of the project would alleviate much of the financial risk. In addition, sufficient market research will be needed to assure a market for mixed income housing.

In our opinion, the most likely market for mixed income rental housing for older persons will be in specialized congregate and assisted living housing where substantial services are offered. The number of older people with moderate and upper incomes who rent has been declining steadily. On the other hand, growth in the private market for assisted living housing has been very rapid. A financing tool that made such housing and services available to older persons with low incomes would be a worthy use of Section 202 and a potential support to the President's long-term care initiatives.

2. What would you think of public housing agencies also being eligible sponsors of Section 811 developments and nonprofits also as eligible sponsors of Section 811 tenant based assistance?

As an organization that represents older persons, AARP would not presume to suggest how programs to serve younger persons with disabilities should be structured. We believe that disability groups should be closely consulted on any such changes.

Similarly, since we are not a sponsoring organization, we generally do not have a direct stake in the sponsorship of project-based or tenant-based assistance. AARP would note, however, that Section 811 tenant-based assistance is targeted to public housing authorities which have gone through an allocation plan. Because of the severity of the "mixed population" problem in many public housing authorities, the current targeting of rental assistance for persons with disabilities to enable housing authorities to allocate buildings to older persons would seem a reasonable approach.

3. I believe that Texas is one of the states where reverse mortgages are not permitted. What are the other two states and what are the state laws that prevent such mortgages? Have there been any sham transactions that have harmed the elderly under the aegis of the reverse mortgage program?

The Chairman is correct that Texas is one of the states in which reverse mortgages have not been available due to the constitutional "homestead" protections. The situation in Texas is likely to undergo a major change due to a recent (April 29) ruling by the U.S. Fifth Circuit Court of Appeals. In a ruling on *First Gibraltar Bank v. Morales*, the Fifth Circuit upheld the federal preemption of the homestead prohibitions against liens on home equity -- a ruling that should allow federal- and state-chartered financial institutions to start offering reverse mortgages in Texas.

The other two states in which reverse mortgages have not been offered are Alaska and South Dakota. The problems in those states have been limited markets, not legal barriers. While some minor legal problems exist in some states -- largely as the consequence of laws and regulations that did not anticipate the unique features of reverse mortgages -- these problems are being addressed at the state level for the most part.

To our knowledge, the FHA reverse mortgage program has been essentially scam-free. To a large extent, the structure of the instrument itself makes it difficult to use from the perspective of the scam artist. Most scam artists want to get their money quickly. Reverse mortgages, however, require a long period of payout before the lender receives a repayment on sale of the home. The marketing of reverse mortgages is generally time consuming and expensive -- also obstacles to the quick-buck scam artist. The independent counseling required under the FHA program has proven still another an obstacle to scam artists.

We are aware of only a few instances that might be characterized as attempted scams. In one, a Colorado aluminum siding salesman was attempting to get customers to sign up for reverse mortgages to buy his product. AARP alerted local officials, and the practice was stopped -- without any sales as far as we know. In another instance, a mortgage broker attempted to collect a \$5000 finders fee at closing. Fortunately, a Fannie Mae attorney was representing the consumer pro bono and discovered the fee -- which went unpaid. Finally, a non-FHA reverse mortgage program offered in California is currently defending itself against a Truth in Lending class action suit over procedures that it used to refinance reverse mortgages it had made -- to the detriment of consumers in California's declining housing market.

These few examples must be balanced against the many examples of people being helped out of dire straits by reverse mortgages. Many home foreclosures have been averted, major credit card debt retired, and seriously needed home repairs and adaptations made because of reverse mortgages. According to a HUD-sponsored study of the first 1000 loans, the average borrower was a 77 year-old woman living alone with an income of under \$7600 and home equity of roughly \$100,000. With such low incomes, reverse mortgage borrowers typically do not qualify for other, more conventional types of credit. They are precisely the kind of consumers upon whom the scam artists prey. Reverse mortgages provide access to legitimate credit for persons who would not otherwise qualify and for whom the alternatives often involve losing their homes.

AARP is well aware that reverse mortgages are not for everyone. We have worked hard at providing consumer education and training counselors so that older consumers can make wise credit decisions. We are also well aware of scam artists and have provided consumer alerts and other information to increase consumer awareness of these scams. In addition, AARP has actively supported the Home Equity Protection Act, which is currently being considered by the Consumer Credit and Insurance Subcommittee of your Committee. Among the provisions of that act is a section creating a new disclosure requirement for all reverse mortgage lenders based on the FHA disclosures required by this Committee in the 1990 National Affordable Housing Act.



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Statement by

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President, and Chief Executive
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on behalf of the

American Association of Homes and Services for the Aging

before the

Subcommittee on Housing and Community Development
Committee on Banking, Housing and Urban Affairs
U.S. House of Representatives

April 26, 1994

*Representing not-for-profit organizations dedicated to providing quality
health care, housing and services to the nation's elderly*

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TESTIMONY OF
REV. LAVERNE R. JOSEPH, D.D.
REPRESENTING
THE AMERICAN ASSOCIATION OF HOMES AND SERVICES FOR THE AGING

Mr. Chairman and members of the Housing and Urban Affairs Subcommittee. My name is Laverne Joseph. I am an ordained clergyman in the United Church of Christ and serve as the President and Chief Executive of the Retirement Housing Foundation, a not-for-profit development and management company for elderly housing based in Long Beach, California. I am pleased to be here today representing the American Association of Homes and Services for the Aging (AAHSA) for which I serve as a member of the House of Delegates and as former chairman of the housing committee.

On a personal note, I am pleased that among the members of this housing subcommittee are Congresswomen Roybal-Allard and Walters, who represent the Los Angeles area, where our largest facility, Angelus Plaza, is located. We were honored a few months ago with a visit by Congresswoman Roybal-Allard, Congressman Joe Kennedy of the full committee, and HUD Secretary Cisneros. We were pleased that at that time, Secretary Cisneros acknowledged his high regard for our facility, for the Section 202 program and for elderly housing.

The American Association of Homes and Services for the Aging* (AAHSA) appreciates this opportunity to share our views on housing reauthorization legislation for FY95 and FY96. We would also like to express our appreciation to you, Chairman Gonzalez, and to the Committee for its leadership with the 1992 housing act, particularly provisions to preserve and assist elderly housing.

Two years ago I testified before this Committee on the Housing and Community Development Act of 1992. One of the centerpieces of that legislation was provisions for an equitable solution to mixing young persons with disabilities into elderly housing. AAHSA believes that the Act provided a reasonable framework for addressing this emotional issue. We commend the Committee for its leadership on this critical issue and seek your continued support as HUD and our facilities begin to implement these provisions.

Mr. Chairman, AAHSA is pleased that your bill, H.R. 3838, the Housing and Community Development Act of 1994, recognizes the need to strengthen existing programs, including the Section 202 Supportive Housing for the Elderly program. And, while we support many of the Administration's initiatives outlined last week, we concur with you in believing that they should not be implemented at the expense of existing programs that have demonstrated both their effectiveness and critical need. AAHSA supports many of the provisions in H.R. 3838, such as HOME, CDBG, Community Partnership Against Crime, and multifamily property disposition. Our testimony, however, will focus on those programs that specifically affect nonprofit sponsors of federally assisted elderly housing.

* On March 14, 1994, our association officially changed its name by adding "Services" to reflect our members' long-term commitment to facilitate supportive services in a continuum of care for our residents and communities. The American Association of Homes and Services for the Aging (AAHSA) is a national nonprofit association representing nearly 5,000 nonprofit providers of housing, long-term care and community services. Seventy-five percent (75 percent) of AAHSA facilities are affiliated with religious organizations, the remaining are community groups, fraternal organizations, labor unions, government agencies and private foundations.

Section 202: Need for Affordable Elderly Housing

There is a growing gap between the need and supply of affordable housing that is available and suitable for low-income older persons. This gap is largely due to the steady increase in numbers of older persons in this country and the significant cuts in recent years to federally assisted housing, including housing specifically for very low-income elderly. I would like to include as part of my testimony a chart showing this funding and demographic trend.

While the elderly participate in a number of federally assisted housing programs, Section 202 is the primary federally assisted program specifically for very low-income elderly. We appreciate the strong commitment this Committee has shown over the years for the Section 202 program. As you know, the Administration (primarily at the urging of the Office of Management and Budget) has sought for years to eliminate or significantly reduce funding for this program. Our nonprofit members and the low-income elderly that they serve, therefore, are grateful that this Committee and Congress, has recognized the need and benefits that this program offers for many frail, vulnerable and very low-income elderly.

Unfortunately, the level of funding has been reduced on a continuing basis from the late 1970s—when over 20,000 units were funded—to the current level of less than half that amount. These funding cuts coupled with an increasing elderly population have resulted in a multiyear waiting list of more than 250,000 elderly, or nearly eight older persons for each available unit.

For example, Angelus Plaza has a waiting list of 1,600 persons for an average of 12 to 15 units vacated each month. Thus, it has a nine-year waiting list, which means that most persons on this list will never be able to move into the facility, particularly those who do not have a federal preference. I have with me a petition sent last week to Secretary Cisneros, signed by more than 500 members of resident council praising this program and urging that additional facilities be developed to assist other needy elderly.

Recently, one of our state associations conducted a survey of the waiting lists of its members and other housing providers in the state. Among the comments received were from providers who stated that many of the elderly are so anxious to move into an elderly housing facility that they call whenever they see a death notice in the newspaper to see how this affects their place on the waiting list. Unfortunately, many die before their name gets to the top of the waiting list. This past year, a new 75-unit Section 202 facility in the L.A. area (Alhambra) received more than 2,500 applications—including 350 walk-in applicants—when the facility opened. Who knows where these eligible, very low-income older persons will find affordable housing. In many communities, vacancies are low and market-rate rents are increasingly well beyond the near-poverty-level budget of the large majority of low-income elderly. Many facilities have closed their waiting lists because of the extensive numbers of eligible applicants. For many elderly, the phrase "aging in place" means growing older while languishing on multiyear lists. The deadline for application is May 10.

Yet, the FY94 funding level will only provide a new construction and service level to support 9,000 elderly housing units. To put this into perspective, HUD issued on Feb. 2, 1994 a notice of funding availability (NOFA) for only 7,745 units. That represents an average of fewer than 18 units per congressional district, of which each has an average of approximately 70,000 older persons. No wonder there is keen competition for and limited development of Section 202 facilities in most districts. I would like to include a chart that indicates by state and HUD field office the number of units available.

Unfortunately, this downward funding trend continues. The Administration proposed only \$150 million in FY95 funding to support 1,156 units of Section 202 housing. We have been assured by the Administration that its funding recommendation for the Section 202 program is not because the program is unworkable, or inefficient, or ineffective, or wasteful, or that it is unpopular, or does not meet a critical housing need for a very special, very vulnerable population. On the contrary, Section 202 is recognized by the Secretary Cisneros, and others, as one of the most successful, most popular and best run programs at HUD.

As stated in the HUD FY95 budget document, the Administration's rationale for this cut is that units "will be partially offset by two policy changes. First, the Department will provide increased housing alternatives specifically for physically and mentally disabled tenants in the mainstream of the housing market. As a result, the elderly inventory will stretch to accommodate further need. Second, the Department anticipates that by the late '90s, the Administration's health care reform initiative will open up new opportunities for elderly needing long-term care."

The Administration also has rationalized this cut based on a false perception of a back up in the Section 202 pipeline. As you know, this Committee was instrumental in the 1990 housing act to free up a former pipeline situation. Therefore, at the present time, thanks to earlier reforms, there simply is no Section 202 pipeline beyond the normal development process.

In response to the rationale of freeing up units occupied by nonelderly disabled as a result of the 1992 housing act, we do not envision, and certainly have not experienced, younger persons with disabilities vacating elderly housing en masse. In fact, as you may recall, AAHSA specifically advocated for (and the Act included) a grandfather clause that protects existing nonelderly disabled residents from being required to vacate elderly housing facilities. While we certainly encourage the current mix in elderly housing to revert to elderly through attrition, this transition only would occur over an extended period of time and would not begin to address the current acute need for elderly housing.

We take issue with the Administration's rationale as being hollow, misguided, short-sighted and insensitive to the many elderly who are currently languishing on multiyear waiting lists. In addition, we are very disappointed that the Administration has missed an opportunity to recognize the critical relationship between health and long-term care reform and the role of supportive elderly housing. Rather than cutting the Section 202 program, we believe that the Administration and Congress should be increasing funds for supportive elderly housing as a smart investment to address long-term care needs of increasing numbers of frail older persons, particularly those aged 85 and over who represent the fastest growing segment in our population.

Last week, an independent national survey showed that nearly four out of every five adults (79 percent) favor expanding the federal government's role in increasing the supply of affordable housing for low- and moderate-income elderly. By more than six to one (83 percent to 13 percent), the American public supports government assisting nonprofit groups to develop housing for low- and moderate-income elderly persons. Furthermore, an overwhelming majority (88 percent) favor government helping to provide housing with services as part of a strategy to address long-term care needs of the elderly. The Administration's budget proposal is not reflective of the general public's support for low-income elderly housing.

AAHSA is pleased that the Committee bill rejects the Administration's proposed cuts for the Section 202 program and seeks reauthorization of an aggregated \$1.591 billion in FY95 and \$1.639 billion in FY96 for Section 202 and Section 811 Supportive Housing for Persons with Disabilities program, which is a slight increase above the \$1.365 billion authorization for FY94. We also are pleased that the Chairman and members of this Committee recognize these proposed cuts as essentially an effort to take funds from some existing programs to fund new initiatives. As several members of this Committee have publicly stated, this is no more than "robbing Peter to pay Paul."

RECOMMENDATIONS:

AAHSA would prefer to restore funding for the Section 202 program to its earlier level of 20,000 units per year. At the very minimum, however, we urge the Committee in FY95 to fund the Section 202 program at the current level of 9,000 units. However, in light of the critical shortage of affordable housing for the elderly, we also urge that additional flexibility be provided to stretch these Section 202 funds. Specifically, we urge Congress to allow leveraging Section 202 funds with other public and private resources to develop larger-size elderly housing facilities. We believe that this flexibility will provide some sponsors an option to use Section 202 funds to develop mixed-financed and mixed-income facilities.

For example, a sponsor could use Section 202 funds targeted to very low-income elderly to develop a portion of a larger-size project and to leverage these funds to secure conventional or state or local funds for the balance of the project. In addition, we recommend flexibility to enable using Section 202 funds in mixed-use facilities, including the combination of Section 202 rentals and an elderly cooperative with unit ownership limited to older persons. A local community also might use Community Development Block Grant (CDBG) funds to develop a senior center in conjunction with a Section 202-financed elderly housing project. Similarly, a sponsor could develop a Section 202 housing facility and use Section 232 mortgage insurance to develop an adjacent assisted living or nursing home facility to provide a continuum of care for frail elderly.

The amount of the Project Rental Assistance would be based on the number of very low-income persons residing in the facility, although we also recommend restoring eligibility for low-income for rental assistance. The development of mixed-financed facilities also could facilitate the development of mixed-income facilities. AAHSA believes that mixed-income facilities are financially and socially better not only for the residents but also for the sponsors, local community and the federal government (tax payers). While legislation allows mixed-income facilities in a number of other federal programs, including public housing and HOME, tight targeting restrictions remain for the Section 202 program.

The Section 202 program was originally intended to provide affordable housing options for low- and moderate-income elderly. The Section 8 rental assistance program, established in 1974 including use with Section 202, was initially available for low-income individuals below (80 percent of the area median). Beginning in 1981, however, the federal government began massive funding cuts in federally subsidized housing, including Section 202/8, and began to increase targeting to limit eligibility to only very low-income individuals (50% of area median income), as well as imposing more restrictive federal preference requirements.

As a result, many "near-poor" elderly (those with incomes above the eligibility

guidelines, yet unable to afford market-rate housing) were squeezed out of affordable housing. There are over one million low-income elderly persons who previously were eligible for federally assisted housing, but now who are ineligible. These older persons have substantially less income than the general population and are at a distinct disadvantage in the marketplace for affordable housing. Furthermore, the concentration of very low-income elderly also has altered the character of many facilities and created a perception of "welfare" or public housing from a more socially acceptable "elderly housing." Ironically, these tight targeting policies also resulted in increased federal costs for rent subsidies, while serving fewer numbers of older persons.

In addition to urging clarifying language to enable Section 202 funds to leverage other public and private resources for development of affordable elderly housing, we also urge clarifying language to enable the use of Section 202 funds to acquire HUD defaulted properties and/or other properties suitable for elderly housing. AAHSA additionally urges that elderly housing be identified as a priority eligible housing program for "risk sharing" mortgage demonstrations with state and/or local finance agencies. While we would recommend that mixed financing be an option for sponsors, we also recommend that Congress establish a national demonstration program to stimulate and expedite the development of this type of mixed financing with at least two sites per congressional district.

Section 811: Expanding Housing Options for Persons with Disabilities

During congressional deliberations on the mixed-population issue, it was recognized that a principal cause of the problem was the insufficient supply of suitable and affordable housing for both elderly persons and younger persons with disabilities. The Committee took a leadership role in increasing funding for both programs. The authorization for these programs, however, was combined, with 70 percent for Section 202 and 30 percent for Section 811.

To further expand "mainstream" housing options for persons with disabilities, the 1992 housing act established a new Section 811 voucher program. This new program was to be administered by local public housing authorities. Unfortunately, it has not yet been implemented by HUD, primarily because of the funding system established in the Act. The new voucher program only could be funded after sufficient funds were appropriated over the preceding year's level. This approach tends to encourage the continued development of group homes at the expense of other mainstream housing options, such as vouchers and scattered-site approaches. In addition to funding, there also is a need to develop a system to facilitate linkages with essential supportive services.

RECOMMENDATION:

AAHSA recommends a few modifications to the Section 811 program that we believe will help expand additional housing choices for persons with disabilities. HUD could allocate Section 811 funds (both project based and vouchers) to PHAs and/or HUD field offices based upon a needs formula. The PHA and/or HUD field office would issue a NOFA for competitive funds for nonprofit organizations (including PHAs if HUD field office was the administering agency) to develop three types of housing options. First, group homes, preferably with live-in staff and/or located near community centers providing a host of supportive services. Second, leased units in scattered sites throughout the community. And/or, third tenant-based vouchers linked with supportive services. Ideally, a few nonprofits would be funded to administer all three housing options. A key factor with each of these housing options would be the commitment of third-party service agencies to facilitate supportive services as needed to assist disabled persons. In

addition, this linkage with a third-party agency could provide an assurance ("life-line") to the housing provider that timely and appropriate intervention and risk sharing would be taken when admitting persons with disabilities. We would recommend that first priority be given to existing nonelderly disabled persons residing in federally assisted elderly housing who prefer a housing option more in keeping with their age group.

To help implement the mixed-populations provisions of the '92 Act promoting increased housing opportunities for nonelderly persons with disabilities, this Committee and Congress last year approved funding levels that almost double the number of new units above the previous year under the Section 811 program. In FY94, Congress appropriated \$180 million in capital advance and \$207 million in rental assistance funding to support 3,000 Section 811 units. For FY95, the Administration recommends \$179.8 million in capital advance and \$207.2 million in rental assistance funding to support 2,915 Section 811 units. AAHSA supports the funding level proposed in H.R. 3838 for Section 811, as well as the minimum five percent set aside (Section 114) of public housing new construction and a five percent set aside of public housing major reconstruction of obsolete projects (Section 113) to expand housing options for persons with disabilities. We also support the Administration's proposed addition of 5,000 Section 8 vouchers to further expand "mainstream" housing "choices" for persons with disabilities. AAHSA believes that increasing the number of scattered-site housing, vouchers and group homes under the Section 811 program and enforcing fair-housing requirements in public and private family housing settings will help alleviate the significant shortage of housing opportunities for nonelderly persons with disabilities.

Linking Supportive Services: The Role of Elderly Housing in Health Care Reform

One of the major concerns of AAHSA members is their ability to respond to the supportive services needs of aging-in-place older residents. The average resident age in federally assisted elderly housing is 78 years with increasing numbers of persons in their late 80s and 90s. We commend the Chairman and the Committee for your earlier leadership in facilitating linkages of supportive services with elderly housing, particularly expanding authorization for service coordinators in federally assisted elderly housing.

AAHSA firmly believes that supportive housing for the elderly needs to be recognized both as a vital part of health and long-term care reform policy and as a cost-effective strategy to develop community-based alternative living arrangements for frail elderly. One clear justification for expediting the development of supportive elderly housing is to offset the high cost of some institutional-based long-term care. Though nursing homes provide an important service and are vitally necessary for certain frail older persons, most experts recognize that institutional-based solutions to long-term care problems are often over utilized because alternative housing options are unavailable. An investment in supportive housing for the elderly could yield significant future dividends by enabling many older, frail persons to remain in more cost-effective supportive housing, as polls indicate they overwhelmingly prefer.

AAHSA supports the Administration's initiative for Home and Community Based Care as part of its health-care reform package and agrees that supportive services for disabled persons of all ages should be provided in the least restrictive residential setting, particularly federally assisted elderly housing facilities. We further believe, however, that the Administration missed an opportunity to promote the development of effective community-based alternatives as part of its strategy to reform health and long-term care policies by not making a smart investment in existing and popular initiatives, such as the Section 202

Supportive Housing for the Elderly program. As reinforced in a public opinion poll conducted in mid-April (tax week), the American public overwhelmingly support elderly housing and support an investment in supportive elderly housing as an effective strategy for long-term care reform.

As I noted earlier, our members voted to add the phrase "and Services" to our organization's name. This change was made to more accurately reflect our long-standing commitment to the "continuum of care" for the elderly. Our members do not simply provide the physical living environment for residents that we serve but they also provide services or linkages to the support systems necessary to enable their residents to live independently with dignity. As an organization, AAHSA is unique in representing nonprofit sponsors involved in the entire spectrum of retirement facilities, including housing, assisted living, community services, and nursing homes. Our members have extensive experience with the care of frail elderly in various residential settings.

In order to facilitate these effective linkages with supportive services, federally assisted elderly housing facilities need: 1) a well-trained staff, particularly service coordinators; 2) sufficient community space to facilitate services; and 3) funds to leverage (match) or access community support services. In addition, there also is a critical need to improve coordination between HUD and the Department of Health and Human Services, as well as with other federal, state and local agencies, to ensure the delivery of needed supportive services to residents in elderly housing.

Our members are grateful for the action taken by this Committee and the Congress to expand funding for service coordinators in federally assisted elderly housing. On March 23, HUD issued a notice to the field, allocating \$47 million in Section 8 funds for service coordinators in Section 8, 202, 202/8, 221(d), and 236 projects for FY94. Unfortunately, but not surprisingly, the demand for service coordinators has exceeded the amount of available funding. In light of this overwhelming need, it is especially compelling that funding for service coordinators be sufficient to enable adequate staffing and to avoid the use a lottery to allocate funds. Also, there is a need to ensure that federally assisted projects needing service coordinators are not ineligible simply based on the timing of their funding source and location. For instance, elderly housing projects funded with either Section 236 or Section 221(d) mortgage programs that have project-based rent subsidies are not eligible, nor were any FY94 funds allocated for Sections 236 or 221s projects in HUD regions VIII and X.

AAHSA appreciates the language in H.R. 3838 to authorize "such sums" for service coordinators. There still is some confusion, however, as to whether service coordinators can be funded as an eligible project expense as part of a project's routine budget review process. Since a service coordinator remains a specific designated line-item in appropriations legislation, HUD attorneys insist that line-item appropriations must be awarded competitively according to HUD Reform Act requirements, and therefore, necessitates a competitive NOFA and possible lottery.

RECOMMENDATIONS:

We urge that Congress make clear that service coordinators are an allowable project expense in federally assisted housing for the elderly, or for projects serving persons with disabilities, homeless and other special populations. We believe that funding for service coordinators to oversee the needs of aging residents should be regarded as part of project management staff and be funded similarly as a maintenance workers who oversee the physical plant. We also recommend that the Section 8 amendments accounts be increased to accommodate the funding of service

coordinators as a part of routine project operating expenses, thus avoiding an unnecessary, time-and-staff intensive, competitive selection process.

In addition, we urge a demonstration program to promote the development and replication of models that promote or facilitate effective linkages of supportive services with elderly housing. Models or "co-location" could adapt space in the facility, on the property, or adjacent to the facility for providing supportive services. For example, CDBG funds and/or other public or private resources could be used to develop a senior center attached or adjacent to elderly housing. The senior center could provide a place where such community services as meals, counseling, home-health, adult day care, and/or transportation could be provided. The elderly housing project could provide a service coordinator to assist older residents access community services. Services provided through these senior centers or other "co-located" facilities would be able to assist older residents in the elderly housing facility as well as older residents in the surrounding neighborhood and community. As such, these facilities would become recognized community focal points for accessing supportive services.

Through a "co-location" model the various service providers would be responsible for their own finances, licensing, staffing, etc., although space could be provided in the facility at reduced rents or on an in-kind basis. In addition to senior centers, some facilities may prefer community centers (for services to other age groups, i.e., child day centers, education, counseling, and/or recreational programs). A hospital or other medical facility might set up a satellite health clinic in or adjacent to the housing facility. Similarly, a separate sponsor (or separate entity of the housing sponsor) might use the Section 232 mortgage program or other sources to establish an assisted living or nursing home facility in or adjacent to the housing, which would offer a true "continuum of care" for the elderly.

While there are many existing co-location-type elderly facilities, usually they are not federally assisted facilities due to funding or administrative constraints. As part of a demonstration program, existing regulatory barriers could be identified and waived. In addition, flexibility could be provided to enable the conversion of some existing space in the housing facility to accommodate community services and/or the conversion of housing units into assisted living units. Finally, the 1990 and 1992 housing acts authorized the use of project funds for paying up to 15 percent of the cost of supportive services. HUD, however, has not developed guidelines to implement these provisions. Therefore, we would recommend that the Committee establish a statutory timeframe for HUD to implement these provisions.

This Committee has provided much national leadership in linking supportive services with housing for the elderly and other special-needs populations. While we recognize that the Committee has limited jurisdiction over funding and the administration of supportive service programs usually administered by HHS, we believe that the Committee can provide leadership to promote HUD and HHS collaboration by facilitating demonstration programs, such as mixed-use and "co-location" models to effectively link supportive services with elderly housing to assist low-income elderly residents and other older persons in the neighboring community.

AAHSA supports the authorization level provided in H.R. 3838 for the expansion of the Congregate Housing Services Program (CHSP). There are currently 53 projects under the original CHSP program and last year HUD funded an additional 46 projects under the revised program. For FY94, Congress appropriated \$25 million to further expand this program. Unfortunately, some sponsors have had difficulty in securing the necessary 50 percent match. Therefore, we recommend that a waiver be provided

on a case-by-case basis to ensure that needy older persons in these facilities are able to participate in the CHSP program.

Modernization and Retrofitting: Needs of Aging Buildings

In addition to aging residents, the physical plant of many facilities are aging, or were developed under policies and requirements that restrict their ability to meet their residents' needs. Also, many federally assisted facilities need to be retrofitted in order to comply with federal handicapped accessibility guidelines or safety requirements, including requirements under the Americans with Disabilities Act, and Section 504 of the Rehabilitation Act of 1973. Other facilities need modernization or retrofitting to ensure that they provide a safe and decent environment as envisioned in national housing policies, by maintaining sanitary conditions, as well as providing security or fire-prevention measures.

The 1992 housing act established in Title IV a new comprehensive needs assessment requirement for all federally assisted housing projects. AAHSA believes that this multiyear planning tool is a step in the right direction for calculating modernization and retrofitting needs. Unfortunately, despite congressionally mandated deadlines, HUD has not issued instructions or regulations necessary to implement this requirement. Once these needs assessments are compiled, HUD and Congress will have for the first time a means to measure the type and amount of work that needs to be done to ensure that the elderly and other federally assisted housing are well maintained.

Another potential source of funds for modernization and retrofitting is a new program specifically for elderly housing that was established under Title VIII of the 1992 housing act. Unfortunately, the program is included as part of the revised CHSP program, and given the limited funding for the program, HUD has chosen not to develop regulations to implement the program.

Modernization and rehabilitation funds also might be made available through a project's residual receipt and/or reserve for replacement accounts. AAHSA commends the Committee for its action in the 1992 to enable increased access by some federally assisted elderly housing projects to residual receipts for some modernization and resident needs. However, not all projects have adequate reserve accounts and, therefore, other means of financing modernization must be identified.

RECOMMENDATIONS:

AAHSA recommends that Congress provide \$50 million in FY95 for the new Title VIII modernization and retrofit program as a separate program or to transfer it as part of the new Title IV needs assessments requirements and that Congress instruct HUD to expedite regulations to implement both programs.

AAHSA urges Congress to allow Section 236 projects that can demonstrate physical plant or resident needs to be able to retain all or at least a large portion of their excess rents. These excess rents, which for the most part are a result of good management practices, are now used to fund the Flexible Subsidy loan and grant programs. Recent legislative and regulatory changes to the Flexible Subsidy program, however, has resulted in it primarily being targeted to projects in serious management or financial troubles. Thus, while some well-managed projects may contribute to the Flexible Subsidy program, they have limited access to these modernization resources, even if they have critical unmet modernization or resident needs, since they are not a "troubled project." This approach to funding and allocating Flexible Subsidy funds seems a disincentive to encouraging sound management since there would be limited incentives to maximize excess rents.

For instance, one of our members reported that their facility needs \$1.2 million to update and modernize their 22-year-old building. While this project has contributed excess rents, there is limited assurance that they will be able to secure Flexible Subsidy funds. In 1993, only nine elderly projects nationwide were funded with Flexible Subsidy funds. We believe that if Congress would allow Section 236 elderly projects sponsored by nonprofits to retain their excess rents, this would stimulate an incentive to improve management practices. We would recommend that the Flexible Subsidy program be financed through direct appropriations funds, as had been done previously.

AAHSA also recommends that federally assisted elderly housing projects be allowed to refinance their existing mortgage and that portions of the financial benefit of refinancing be placed in the project's reserve accounts for such needs as modernization and retrofitting. Similarly, AAHSA urges that some federally assisted elderly housing projects be able to prepay their mortgage as a means of securing funds for modernization.

Finally, AAHSA members are disturbed with the Administration's proposed 18 month freeze on Section 202 rent adjustments. We believe that this is an unrealistic proposal since Section 202 rents need to be adjusted in order for projects to cover necessary operating expenses, such as increased costs for manpower, utilities, maintenance, etc. If Section 202 rents are frozen, Congress will be creating more problems as projects are forced to postpone or cut back on necessary physical improvements and resident needs. Unlike in family housing where there are wage earners, Section 202 rents very seldom are adjusted to reflect a tenant's increased income, since the typical elderly resident's below-poverty-level income remains static or decreases. We urge Congress to reject this short-sighted and impractical proposal.

Mixed Populations: The Next Phase of Fair Housing

AAHSA applauds the Committee's efforts to solve the mixed-population problems for federally assisted elderly housing projects through Title VI of the 1992 housing act. We are pleased that HUD is finally on the verge of issuing implementing regulations and relieved that the regulations closely follow congressional intent as outlined in the 1992 Act. Allowing projects that were originally intended to be built and designed to serve an elderly population the ability to restrict their occupancy to older persons is not only fair, but it provides the low-income, frail, elderly a "choice" of age-specific federally assisted housing that provides, for some, a real or perceived safer, more secure living environment.

AAHSA believes, however, that many of the problems that Congress sought to resolve still confront many elderly housing projects where mixed populations exist. Some difficulty continues because of a lack of adequate guidance from HUD with existing laws. For example, there are several HUD regulations affecting fair housing that have not been implemented, even though the laws were enacted several years ago. In addition, prior to the current Administration, HUD had been negligent in its enforcement of some aspects of fair-housing laws. We believe that HUD's failure to implement the familial exemption provision of the 1988 Fair Housing Amendments Act and the "direct threat standard" of the Section 504 of the 1973 Rehabilitation Act have had a negative impact on management of elderly housing facilities, in some cases, leaving facilities at risk to unwarranted complaints and fear of lawsuits that coerced managers to accept ineligible applicants.

We believe that fully implementation and fair enforcement of these regulations will help elderly housing managers sort out their legal requirements under fair housing laws. It was hoped that the congressionally mandated HUD Occupancy Task Force would

provide additional guidance and clarification on occupancy criteria, including guidance for elderly only and mixed-population settings. AAHSA believes, for example, that maintaining a secure and safe environment in elderly housing requires a different set of standards than those required to achieve the same result in family housing.

Instead of clarifying existing requirements for federally assisted housing managers to ensure the rights and responsibilities of all residents, AAHSA believes the task force focused mainly on the particular rights of persons with disabilities. From our perspective, the task force's final report failed to meet some of its obligations. Because of our concerns for its lack of clarity and its imbalance guidance, AAHSA was the only organization of the 34 members that did not endorse the task force's final report. Our letter to the task force explains some of our reasons for not endorsing the report. We would be pleased to make it available to the Committee and we would like to include it as part of our testimony.

AAHSA also is concerned with the growing number of fair-housing lawsuits and complaints being pursued against elderly housing providers. We believe that the increasing costs in time and money to nonprofit providers and to the federal government should be better spent on the projects and their residents, instead of being wasted to defend elderly housing providers against complaints and suits, especially those that are frivolous and unwarranted.

RECOMMENDATIONS:

AAHSA urges Congress to instruct HUD to expedite the implementation of all pending regulations that affect fair housing. Furthermore, we believe that there is a need for additional clarification, especially if the resulting regulations and guidelines provide the type of guidance that will protect projects from frivolous fair-housing complaints and lawsuits and give clear guidance to HUD field staff, project managers and potential residents regarding eligibility in different types of elderly housing. If statutory change is required, we urge Congress to give to elderly housing managers the necessary screening and eviction tools to help ensure a decent, safe housing environment for their frail, vulnerable older residents.

AAHSA supports the Administration's proposal funding the Fair Housing Initiatives Program (FHIP) that provides grants to nonprofit organizations for activities that affirmatively further fair housing. We urge, however, that this program be expanded to allow for early intervention in the complaint process to eliminate unwarranted minor complaints. We believe that this process would save all parties time, money and effort. HUD is currently reorganizing its Office of Fair Housing and Equal Opportunity. Such a reorganization could include fair-housing processing centers around the country where complaints could be filed, unwarranted ones dismissed and legitimate ones handled in a much more timely and efficient manner. When lawsuits are filed, HUD or the Justice Department could intervene at an early stage to determine if each suit has merit, and if not, could reject them before the legal action becomes unnecessarily costly and time consuming. We also urge that funds be provided to enable nonprofit elderly housing sponsors to address the influx of recent complaints, some we believe are a direct result of the federal government's affirmative action initiatives, including the use of project funds for additional manpower and legal defense.

Need for Training: Improving Management and Technical Assistance

As these long-delayed fair-housing regulations and Title VI requirements are implemented, including new occupancy criteria for all federally assisted housing, there will be a need for additional training and timely technical assistance to

ensure that these new laws are understood and enforced properly around the country. Providing adequate education to HUD staff, housing providers, applicants and residents also will help minimize unnecessary, costly and time-consuming complaints and lawsuits from being pursued.

Currently there are limited funds to carry out comprehensive and necessary education programs. In addition, HUD is often faced with institutional barriers, particularly with certain provisions of the HUD Reform Act (HUDRA) of 1989, that preclude HUD staff from participating in some housing industry educational programs.

RECOMMENDATIONS

AAHSA supports HUD's efforts to reorganize its structure in order to provide better and more efficient customer service, including the establishment of a HUD Training Academy that will offer educational opportunities for staff and clients. However, we urge Congress to modify the HUDRA provisions that inhibit effective participation by HUD staff in training programs for housing providers and other clients. We also urge Congress to fund educational programs to assist HUD staff and its clients the understand and keep abreast with the most up-to-date information on relevant policy and programs, including fair-housing and occupancy requirements.

AAHSA supports the Administration's efforts to "reinvent" HUD and to make it more streamlined and responsive to constituent's needs. We support the delegation of direct line program authority to HUD field offices. In the past, our members have had great concerns with counterproductive HUD administrative and regulatory constraints that have impeded effective management by nonprofit sponsored federally assisted elderly housing and have resulted in micromanagement of HUD projects. To sole these types of problems we recommend the establishment of a formal and routine administrative appeals process through which federally assisted elderly housing projects could seek guidance, clarification and appeal of inequitable actions by local HUD offices.

Summary and Conclusion

AAHSA believes that the 1990 and 1992 housing acts provided a number of significant policy changes and established or reformed many existing elderly housing programs. We recognize that many of these congressionally mandated changes have not yet been implemented and that there are serious funding constraints. We believe that with the limited funds available for federally assisted housing programs that Congress should make smart investments in efforts to strengthen existing programs. Our testimony seeks to outline a few recommendations that we believe will improve existing elderly housing programs and stretch limited resources.

Of greatest concern to our members is the need to preserve elderly housing as an affordable and suitable housing option for low and moderate income older persons. While great strides have been made in the past couple years, in part due to the leadership of this Committee, to preserve federally assisted elderly housing, we believe additional clarification is needed to ensure a safe and decent environment for the vulnerable low-income elderly. Our nonprofit members do not have the resources and would prefer to devote their efforts to providing supportive housing for the elderly, including frail and disabled older persons, rather than be concerned with time-consuming and costly administrative and legal actions due to unclear or inequitable occupancy requirements.

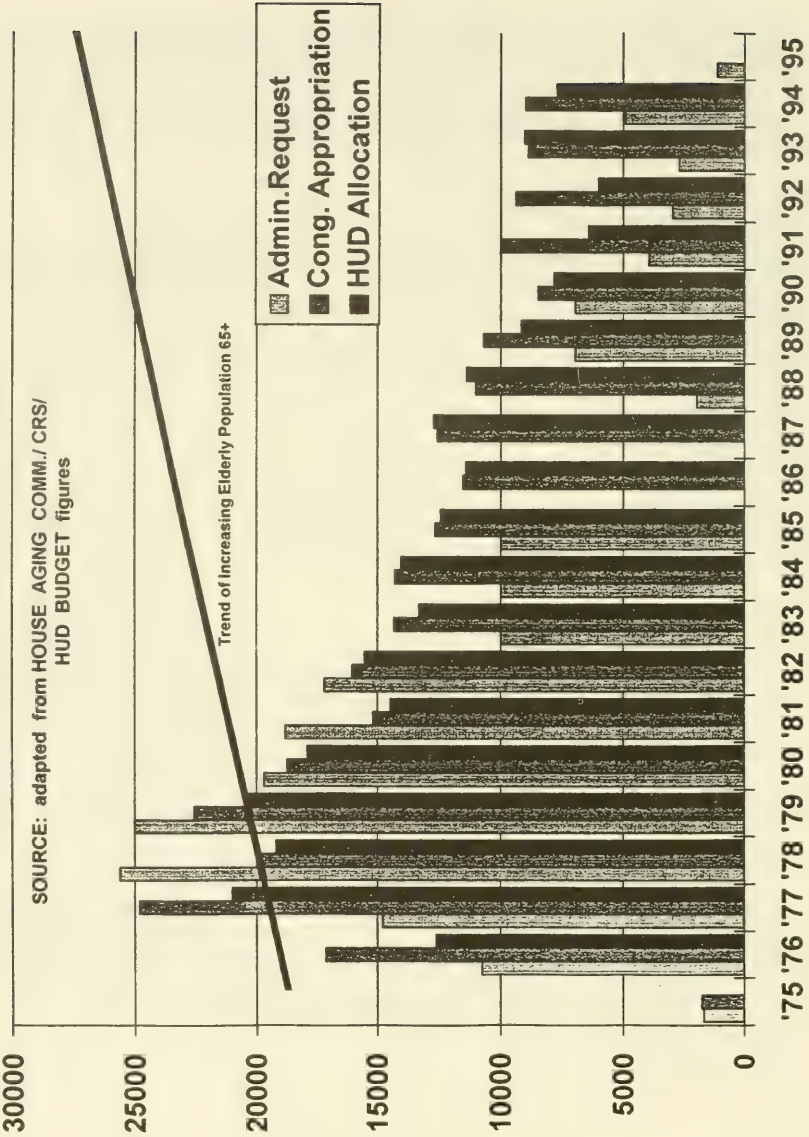
Finally, we believe that the Clinton Administration's initiative for health-care reform has focused much domestic debate on the dilemma caused by limited resources and expanding health and long-term care needs. AAHSA believes that the proposed home- and community-based long-term care provisions for persons with disabilities regardless of age and residency will significantly shift long-held federal policies for institutional-based long term care to home and local communities, including federally assisted elderly housing.

As the national organization representing nonprofit sponsors involved with providing a full spectrum of options in the "continuum-of-care" for the low-income elderly, AAHSA is unique in our membership experience with this emerging national trend. AAHSA is pleased to be part of the Committee's deliberation on the reauthorization of housing and community development programs and would be pleased to provide additional information on any of our recommendations. Please direct your questions to Larry McNickle, director of housing policy, at (202) 508-9428.

LM203

SECTION 202 FUNDING: 1975 - 1995

UNITS (thousands)



**FUNDING FOR THE SECTION 202 ELDERLY HOUSING PROGRAM
1975 - 1995***

YEAR	ADMINISTRATION BUDGET REQUEST millions units	CONGRESSIONAL APPROPRIATIONS millions units	HUD ALLOCATIONS funding reservations units
1975	34/a 1,700	\$215 1770	N/A N/A
1976 +TQ	215 10,750	750 17,113	375 12,600
1977	375 14,800	850 24,791	637 21,000
1978	750 25,600	750 19,973	630 19,200
1979	800 25,000	800 22,525	726 20,444
1980	800 19,700	830 18,720	687 17,900
1981	830 18,800	895 15,166	687 14,470
1982	830 17,200	850 16,038	716 15,525
1983	453 10,000	634 14,308	536 13,300
1984	476 10,000	664 14,277	605 14,024
1985	500 10,000	600 12,639	557 12,416
1986	50/b —	603 11,515	509 11,396
1987	30/c —	603 12,550	557 12,689
1988	131/d 2,000	565 11,000	540 11,375
1989	350 7,000	472 10,681	440 9,173
1990	109/e 7,000	472 8,500	283 7,874
1991	282/f 3,957	610 10,000	375 6,432
1992	229 3,000	539 9,400	365 6,023
1993	122 2,722	527 8,906	572 9,043
1994	284 4,900	521 9,000	499 7,745
1995	150 1,156	N/A N/A	N/A N/A

Source: Adapted from information provided by House Select Committee on Aging; Congressional Research Service; HUD budget & press release summaries

*The Section 202 program has evolved in three distinct phases: loan (1959-1964); loan with Section 8 rent subsidy (1974-1991); and capital grant with project rental assistance. While the program serves both the elderly and handicapped, a separate funding system was established for the handicapped beginning in 1989, and a separate program (Sec. 811) beginning in 1991.

a/ Amount requested to fund remaining activity under old Section 202 program.

Funding for direct loan program. Represents \$11.1 million of carryover from 1990 (pursuant to 1990 Dire Emergency Supplemental Appropriations Act) and \$75 million made available for Section 202 amendments. In addition, \$665.8 million was made available for the new Grant program in 1991 to provide 12,000 units of housing. The new Grant program and the direct loan program are not comparable, thus the new program was not included in the table.

b/ President proposed a 2-year moratorium on new housing production and requested \$50 million to support project already in the pipeline.

c/ President again proposed to terminate the program and use \$30.3 million to fund projects in the pipeline.

d/ President requested funding to complete 2,000 units in the pipeline. He also proposed a supplemental reduction to eliminate 2,000 units of those funded in FY 1987 and recapture those funds for use in FY'88.

e/ President requested \$77.9 million to be used for 7,000 vouchers and \$32.0 million to finance pipeline units.

f/ Program changed to capital advance; amount and units include Administration leased housing request

FISCAL YEAR 1994 ALLOCATIONS FOR SUPPORTIVE HOUSING FOR THE ELDERLY—FISCAL YEAR 1994 SECTION 202 ALLOCATIONS

Field Offices	Metropolitan capital advance authority	Units	Nonmetropolitan capital advance authority	Units	Totals capital advance authority	Units
Region I:						
Boston	\$18,517,727	236	\$3,091,858	40	\$21,609,585	276
Hartford	9,563,287	121			9,563,287	121
Manchester	2,811,600	47	2,955,417	50	5,767,017	97
Providence	4,360,974	57			4,360,974	57
Total I	35,253,588	461	6,047,275	90	41,300,863	551
Region II:						
Buffalo	13,228,711	199	2,620,372	40	15,849,083	239
New York	61,481,464	757	3,193,805	40	64,675,269	797
Newark	24,568,887	313			24,568,887	313
Total II	99,279,062	1269	5,814,177	80	105,093,239	1349
Region III:						
Baltimore	5,075,828	82	1,228,801	20	6,304,629	102
Charleston	2,383,330	43			2,383,330	43
Philadelphia	12,412,192	180	2,038,856	38	14,451,048	218
Pittsburgh	7,037,242	118	1,170,876	20	8,208,118	138
Richmond	4,519,456	85	1,838,717	35	6,358,173	120
D.C.	8,249,461	84			8,249,461	84
Total III	37,677,372	602	6,275,050	105	43,952,422	707
Region IV:						
Atlanta	5,387,383	108	2,854,420	58	8,241,783	166
Birmingham	5,577,338	71	1,869,666	38	7,447,004	109
Caribbean	2,287,981	40	1,128,588	20	3,416,569	60
Columbia	2,643,025	51	1,228,771	24	3,871,796	75
Greensboro	6,161,620	100	3,689,574	65	9,851,194	164
Jackson	3,084,819	64			3,084,819	64
Jacksonville	19,372,418	353	2,158,938	40	21,531,356	393
Louisville	2,887,617	54	2,278,143	43	5,165,760	97
Knoxville	2,184,507	44			2,184,507	44
Nashville	3,015,435	62	1,303,035	27	4,318,470	89
Total IV	50,612,123	953	16,607,135	315	67,219,258	1268
Region V:						
Chicago	23,823,446	347	3,686,485	55	27,519,931	402
Cincinnati	4,780,204	84			4,780,204	84
Cleveland	9,529,447	152	1,213,879	20	10,743,326	172
Columbus	2,239,880	40	1,878,598	34	4,118,478	74
Detroit	8,606,231	152	1,237,936	20	9,844,167	172
Grand Rapids	2,466,915	46	1,310,147	25	3,777,062	71
Indianapolis	6,113,591	108	1,959,977	35	8,073,568	143
Memphis	7,081,812	115	3,955,863	48	11,037,675	164
Minneapolis-St. Paul	6,282,988	98	2,892,188	44	9,175,176	142
Total V	71,906,404	1142	17,063,083	282	88,969,487	1424
Region VI:						
Fort Worth (NM)	7,588,329	148	2,530,768	50	10,119,097	198
Houston	4,884,422	84			4,884,422	84
Little Rock	2,378,180	52	684,523	20	3,062,703	72
New Orleans	4,152,676	83	1,066,812	22	5,219,488	105
Oklahoma	2,731,249	56	959,293	20	3,690,542	76
San Antonio	2,925,287	59	973,098	20	3,898,385	79
Total VI	24,658,147	492	6,414,494	132	31,072,641	624
Region VII:						
Des Moines	2,848,596	56	1,010,775	20	3,859,371	75
Kansas City	4,232,977	80	2,040,609	40	6,273,586	120
Omaha			2,000,654	40	2,000,654	40
St. Louis	2,556,300	43	1,184,487	20	3,740,787	63
Total VII	9,635,875	178	6,256,525	120	15,892,400	298
Region VIII:						
Denver	5,927,830	114	2,990,131	60	8,917,961	174
Total VIII	5,927,830	114	2,990,131	60	8,917,961	174
Region IX:						
Honolulu (Guam)			2,258,519	20	2,258,519	20
Los Angeles	40,649,178	549	2,913,050	40	43,562,228	589
Phoenix	3,263,678	65	984,583	20	4,248,261	85
Total IX	44,912,856	614	5,156,152	60	50,069,008	669
Region X:						
Sacramento	4,078,500	62	1,289,025	20	5,367,525	82
San Francisco	22,033,435	280	3,030,757	40	25,064,192	320
Total X	26,111,935	342	4,319,782	60	30,431,717	382
National total	416,354,725	6361	83,007,775	1364	499,362,500	7725

QUESTIONS FROM CHAIRMAN HENRY B. GONZALEZ TO
REVEREND LAVERNE R. JOSEPH

April 26, 1994, hearing held by the
Subcommittee on Housing and Community Development,
entitled "H.R. 3838, Housing and Community
Development Act of 1994"

1. In your testimony, you advocate leveraging section 202 funds to build additional affordable housing or mixed income communities. Can you comment further on the proposal? How would it work?

2. Can you elaborate further on what you would think of public housing agencies also being eligible sponsors of section 811 developments and nonprofits also as eligible sponsors of section 811 tenant based assistance?

RESPONSE TO FOLLOW-UP QUESTIONS

1. In your testimony, you advocate leveraging section 202 funds to build additional affordable housing or mixed income communities. Can you comment further on the proposal? How would it work?

As stated in AAHSA's written testimony there is a critical need for additional affordable housing for older persons, as well as a reality of limited federal resources. In essence we need to be able to do more with less, i.e. to "stretch" federal resources. We would recommend, therefore, that the section 202 program be amended to enable sponsors the option to leverage their Section 202 funds to attract other public and private funds to develop additional elderly housing units. For example, a sponsor would be able to use Section 202 funds to finance 50 units of a 100 unit building and to use either state or local government funds as well as private funding for the balance of the project. In this manner, not only would there be an expansion of affordable housing units with essentially the same amount of section 202 funds, but also this approach would enable mixed-income facilities. The Section 202 program would remain targeted to very low income while the other funding sources might be targeted to low or moderate income elderly. The amount of the accompanying project rental assistance would be based upon the proportion of cost related to the section 202 units.

There are a wide range of potential public and private funding sources that could be used to finance the balance of the elderly housing facility, such as state housing financing, including the "risk sharing" program, local government bonds, tax credits, public and private pension funds, HOME, conventional financing, cooperatives, etc. In some cases sponsors may need also to include a mortgage insurance to "wrap the financing" of the entire project.

As envisioned, this enhanced section 202 facility would not only expand the supply of affordable housing for the elderly and facilitate additional resources for the facility through a social and economic mix of residents, but some facilities may have design features (such as the number of bedrooms, balconies, amenities or community space) that are usually not available with current section 202 facilities. In addition, some sponsors may be able to develop a mix of rentals with a co-operative for private ownership of units by the elderly (with lien restriction to preserve use for the elderly). Finally, in addition to a sponsor using section 202 in conjunction with other public and private funds to develop an elderly housing facility, a sponsor may chose to use Section 202 funds to acquire units in an elderly housing project being developed by another owner. For example, a nonprofit sponsor could acquire a number of units for low-income elderly residents as part of another public or private housing and/or continuum of care development.

We would urge flexibility with type of funding and proportion to meet local resources and needs. In addition to statutory changes to the Section 202 program, as well as with other federal programs that may be necessary to encourage this type of mixed-financing, we would also urge the establishment of a national demonstration program to encourage and expedite the development of exemplary models.

2. Can you elaborate further on what you would think of public housing agencies also being eligible sponsors of section 811 developments and nonprofits also as eligible sponsors of section 811 tenant based assistance?

As stated in AAHSA's written testimony, we would recommend that the section 811 program be modified to enable sponsors the option to develop either group homes, scattered site housing and/or the use of vouchers. The primary objective of providing different types of housing settings is to expand "mainstream" choices for non-elderly persons with disabilities. Nonprofit sponsors should have the flexibility to provide a range of housing options for persons with disabilities, including tenant based vouchers, based upon local needs and resources. However, as indicated on the attached fact sheet, regardless of the housing type, the section 811 program should be linked to the appropriate type of supportive services needed by persons with disability with assurance that these supportive services are provided as needed.

If a public housing agency (PHA) were the best local agency to sponsor a section 811 program based on its ability to link and/or provide the necessary supportive services to persons with disabilities in different housing settings, then it should have that option. We believe, however, that in most cases that a nonprofit agency closely involved with the delivery of supportive services for persons with disabilities might be more experienced and capable of ensuring the continuity of essential services. Although, in some communities, the PHA (rather than HUD) might be able to administer the program, including the NOFA and monitoring the nonprofit organizations who would actually develop and manage the section 811 projects/sites.

We believe that PHAs should work closely with agencies involved in supportive services for persons with disabilities not only to facilitate supportive services for eligible residents in PHA facilities, but also to assist with the development of community-wide housing options for persons with disabilities. Units developed through section 811 (even if sponsored by other nonprofit organizations) should be included in a PHA's local planning strategy for meeting the needs of persons with disabilities.

If you need additional information, please direct your inquiry to Larry McNickle, Director of Housing Policies (508-9428).



(Rev. Joseph)

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REFORM OF SECTION 811, SUPPORTIVE HOUSING FOR DISABLED PERSONS

ISSUE:

There is a critical shortage of affordable housing that is suitable for persons with the disabilities. Part of this shortage is the result of significant funding cuts in federal housing programs over the past decade, including cuts in the Section 202/8 program which included three categories of disabled persons (mobility impaired, developmentally ill, and chronic mentally ill) in addition to the elderly. In addition, "de-institutionalization" of state mental health facilities have occurred without developing appropriate alternative local housing programs enabling certain disabled persons to be "mainstreamed into the general population." Furthermore, some advocates are not supportive of developing specialized housing for persons with disabilities since this tends to continue the segregation of disabled persons from the mainstream.

CURRENT SITUATION

In an effort to obtain affordable housing, many disabled persons, and their advocates, have sought to utilize provisions in the Fair Housing Act Amendments of 1988 and other civil rights legislation to secure housing in projects that were intended for the elderly. As revealed by a recent GAO study, unintended consequences have enabled increasing numbers of persons with disabilities (utilize of definitions and other actions) to be admitted into federally assisted elderly housing, particularly elderly housing administered by local public housing authorities.

Because of difference in development and operations between projects for persons with disabilities and projects for the elderly, Congress established in 1987 a separate rental assistance program, Section 202/162(h), specifically for projects serving persons with disabilities. In continuing the distinctions between projects for the elderly and projects for persons with disabilities, The National Affordable Housing Act of 1990 established Section 811, Supportive Housing for Persons with Disabilities, as a new housing program encouraging the linkages of supportive services with housing specifically for persons with disabilities. The program was intended to allow non-profit sponsors to develop small group home facilities; to have a service coordinator on staff to link supportive services; and to enable projects to use operating funds to match up to 15% of the cost of various supportive services.

To further expand "mainstream" housing options for persons with disabilities, the Housing and Community Development Act of 1992 established a new Section 811 voucher program linking housing with supportive services. This new program, to be administered by local public housing authorities, will enable individuals to use rent vouchers in various settings throughout the community. This new voucher programs has not yet been implemented by HUD. The Housing Act of 1992 further provides that this new voucher program will be funded after sufficient funds are appropriated over the preceding year's funds, i. e. over the \$193.7 million (1,569 units) appropriated in FY93; and/or \$387 million (3,000 units) in FY94.

Representing not-for-profit organizations dedicated to providing quality health care, housing and services to the nation's elderly

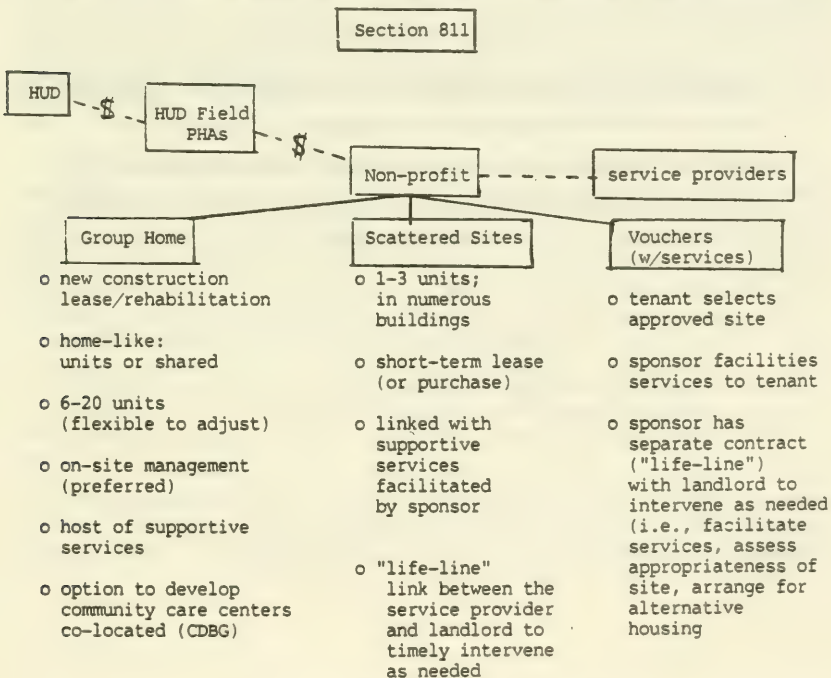
GENE E. YODER, CHAIR SHELDON L. GOLDBERG, PRESIDENT

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RECOMMENDATIONS

There is a need to expedite the implementation of the Section 811 program to increase "mainstream" housing options for persons with disabilities. In addition, there is a need to develop a system to facilitate linkages with essential supportive services to enable disabled persons to have choices with housing options, as well as to provide timely intervention for housing providers.

HUD could allocate Section 811 funds (both project based and vouchers) to PHAs/HUD Field based upon formula needs. The PHA would issue a NOFA for competitive funds for non-profit organizations to develop three types of housing options: 1) group home (preferably with live-in staff and/or co-located with community centers providing a host of supportive services, 2) leased units in scattered sites throughout the community, and 3) tenant based-vouchers linked with supportive services. Ideally, a few non-profits would be funded to administer all three housing options. A key factor with each of these housing options would be the commitment of third-party social services agencies to intervene, as needed, to assist the disabled person and to provide an assurance ("life-line") to the housing provider that timely and appropriate intervention will occur to minimize and co-share the risk of admitting persons with disabilities, particularly persons with mental disabilities. First priority to existing non-elderly disabled persons in federally assisted elderly housing.



For more information, please contact Larry McNickle (202-508-9428).
LM137

**TESTIMONY OF AIMEE R. BERENSON, LEGISLATIVE COUNSEL
AIDS ACTION COUNCIL
BEFORE THE HOUSE BANKING & URBAN AFFAIRS COMMITTEE
SUBCOMMITTEE ON HOUSING & COMMUNITY DEVELOPMENT
APRIL 26, 1994**

Good morning. My name is Aimee Berenson, and I am Legislative Counsel for AIDS Action Council, the Washington representative of over 1000 community organizations across the nation serving people with HIV/AIDS. I want to take this opportunity to thank the members of this Subcommittee, especially Chairman Gonzalez, for the strong leadership you have provided on AIDS housing issues in the past, and for giving AIDS Action the opportunity to testify here today about the critical housing issues facing people with HIV/AIDS.

I am speaking today on behalf of people living with HIV/AIDS and their families across this nation, to let you know how critical adequate housing is to them. We have fought long and hard to create and fund housing programs to meet the needs of people living with HIV/AIDS, their families, and their communities, and to ensure that people with HIV/AIDS are not denied access to federal housing programs for the homeless and the disabled.

Adequate, affordable housing is crucial to preventing the early onset of illness and to maintaining the quality of life for HIV infected individuals and their families. Despite some progress, people living with HIV/AIDS continue to face a staggering array of barriers to obtaining and maintaining affordable, appropriate housing. Despite Federal and State anti-discrimination laws, many people with AIDS still face illegal eviction from their homes when it is discovered they have AIDS; many others lose their housing when, as a result of illness and lost wages, they are unable to pay their rent or mortgage; or the physical demands of the housing become inappropriate for their needs. A growing number of people with HIV/AIDS are already homeless when they become ill and find themselves shuffled between acute care hospitals, medically unsafe shelter facilities, and the streets, at an enormous cost to their health and to the taxpayers. Children with HIV may spend their lives in acute care hospitals because there is no adequate housing for them and their families. Women with AIDS, especially those who have children, often find themselves unable to access the few AIDS residential programs that do exist.

In 1990, Congress took the first steps to address the housing crisis facing people living with HIV/AIDS and their families by passing the AIDS Housing Opportunities Act (commonly called AHOA or HOPWA). This Act empowers local communities with the resources to devise the most appropriate and effective housing strategies for community members with HIV/AIDS and their families. Funding under this Act may be used by communities to develop any of a broad range of housing and support services to meet their needs, whether those needs are for housing information and coordination services, short-term supported housing, rental assistance for low income persons with HIV/AIDS, or community residences.

Ninety percent of AHOA funding is distributed by HUD through a formula grant directly to cities and States hardest hit by the AIDS epidemic. HUD awards the remaining ten percent on a competitive basis to projects of national significance and to less highly impacted cities and states.

AHOA funds are going to communities in states across the country, ranging from New York and New Jersey to Ohio and Illinois to Florida, Texas and California. These funds allow localities and states to provide a continuum of housing for people with HIV/AIDS, reducing

unnecessary hospital costs and keeping people healthier longer. In 1995, at least 10 new jurisdictions will qualify for formula grants based on the number of AIDS cases they have.¹

The AIDS Housing Opportunities Act is our primary concern, since it is the only federally-sponsored housing program specifically designed to meet the acute housing needs of people with HIV/AIDS. This program alone, however, cannot possibly meet the chronic housing needs of people with HIV/AIDS, especially for the many people living with HIV/AIDS in communities that do not qualify for HOPWA formula grants.

In the Housing and Community Development Act of 1992, Congress legislatively reversed HUD's historical policy of denying people with HIV/AIDS access to federal housing programs for people with disabilities, by clarifying that people with HIV/AIDS are eligible for these programs. However, we fear that having finally won access to these housing programs, our victory may be rendered meaningless in light of the Administration's "Consolidated Plan" proposal and its reauthorization proposals, including its proposal to eliminate the Shelter Plus Care and Supportive Housing programs of the McKinney Act, which serve homeless individuals with special needs, including people with HIV/AIDS.

Reauthorization

As Congress begins the task of reauthorizing federal housing programs, including the AIDS Housing Opportunities Act, we ask that you ensure that the vitally important programs serving Americans living with HIV/AIDS continue to exist.

In growing numbers, the faces of the homeless are the faces of people living with HIV/AIDS. The reports on the increasing numbers of homeless people infected with HIV are alarming. The National Commission on AIDS estimated that 15 percent of homeless people are HIV positive and that this number is growing, and the Centers for Disease Control found an HIV infection rate of up to 21.4 percent in selected homeless populations in the United States. There is no question that the lack of affordable, supportive housing for people living with HIV/AIDS has become a crisis within the crisis of the AIDS epidemic in this country.

First and foremost, I urge you to support the reauthorization of the AIDS Housing Opportunities Act. This program is critical to our communities, because it provides life-saving and life-extending housing to people with HIV/AIDS and their families across this nation. It is

¹ In FY 93, 43 metropolitan statistical areas (EMSAs) and States qualified for formula grants; in FY 94 that number rose to 54. A list of the EMSAs and States receiving FY 94 AHOA formula grants is attached. In FY 95, at least six new metropolitan areas are expected to be eligible for formula grants: Dutchess County, NY; Austin, TX; Santa Rosa/Petaluma, CA; Vineland/Bridgeton, NJ; San Antonio, TX; and Caquas, Puerto Rico. A number of as-yet unidentified states will probably newly-qualify for formula grants in FY 95 as well.

exactly the kind of community-based, community-controlled, flexible, formula grant program that we should be developing for housing programs across the spectrum.

I have received frantic calls in the past week from individuals in Chicago, Philadelphia, and New York, who reported that they were told by the Assistant Secretary for Community Planning and Development at HUD that he intends to eliminate the AHOA in the reauthorization process. I certainly hope that this is not the case, having been told otherwise by the Assistant Secretary on numerous occasions. But I would remind everyone why Congress -- and this Subcommittee in particular -- created the AHOA in 1990: because without such a specific program with specific resources behind it, local communities can not -- and will not -- address the housing needs of people living with HIV/AIDS and their families.

Fortunately, this Subcommittee still understands this. Not only does H.R. 3838, the reauthorization bill, include the AIDS Housing Opportunities Act, it also includes a number of community-generated and community-supported amendments. We thank you for this, and urge your continuing support for the AHOA and the improvements to it contained in H.R. 3838, which will:

- Allow up to 2 percent of the Projects of National Significance set-aside to be used for grants to non-profits to provide technical assistance to other non-profit AIDS housing providers;
- Improve the planning and application process by requiring jurisdictions to include a wider range of AIDS service providers and HIV affected individuals and communities in the process;
- Correct a technical error in the definition of "administrative costs" to conform to the definition used in other HUD programs, so that the cap on administrative costs for project sponsors does not include the costs of staff to carry out eligible activities.

I would also urge you to take the opportunity posed by the reauthorization of AHOA to address the chronic underfunding problems we have faced, by increasing authorization levels for FY 95 to \$312 million and to \$406 million for FY 96.²

Although the AHOA was enacted in 1990, no funds were appropriated until fiscal 1992. For FY 92, Congress appropriated only \$50 million of the then-authorized amount of \$156.6 million for the vitally important programs in this Act. In 1992, the Act was reauthorized, and

² The increase between our FY 95 and FY 96 authorization requests is based on the 30 percent average yearly increase in AIDS cases reported by the Centers for Disease Control (CDC) for the past several years, up to the 3/93 -- 3/94 reporting period; cases for that period increased over 100 percent as a result of new cases and the January 1993 change in the CDC surveillance definition.

FY 93 and FY 94 authorization levels were arbitrarily reduced to \$100 million and \$156 million respectively, despite the growing numbers of people with HIV and AIDS who desperately needed housing. Thus the FY 94 authorization level was, in reality, the authorization level that had been approved by Congress for FY 92. Since FY 92, the number of cases of AIDS has more than doubled in this country, and the number of people living with HIV/AIDS at risk of homelessness or already homeless has grown enormously.

On behalf of Americans living with HIV/AIDS and their families in communities across this country, I ask you to provide authorization levels of \$312 million and \$406 million respectively for the AIDS Housing Opportunities Act in FY 95 and FY 96, so that this community-based, community-controlled program can provide desperately-needed supported housing. On their behalf, I ask you to remember that those dollars may mean the difference between life and premature death for many people with HIV/AIDS.

I would like to mention one final issue that we would like to see addressed in the reauthorization of the AHOA. Last year, a number of non-profit housing projects located outside of metropolitan areas, which had been receiving AHOA funding through state formula grants, lost their funding as a result of the state itself becoming ineligible for formula funds because certain EMAs within the state passed the case threshold for eligibility as an EMA and the EMA's cases were subtracted from the state caseload. Admittedly, this situation poses a complex problem, but we are confident that by working with the members of this Committee we will be able to find a satisfactory way to address it.

In addition to the AHOA reauthorization issues, we are also extremely concerned about HUD's proposal to eliminate several other important programs serving the special needs homeless, in order to create a new block grant program. At this point in time, we are unable to meaningfully evaluate HUD's proposal, given that we have not seen any statutory or regulatory provisions governing who is eligible for grants, what activities may be funded, how grants will be applied for or administered, or how HUD will oversee and implement the new program. However, we are concerned that HUD, under the rubric of administrative simplicity and local control, is taking an approach which fails to recognize the historical reality that these special needs programs were created by this Congress because existing local community block grant programs were not serving these populations.

We fear that rather than address the issues of poor HUD administration and oversight of programs, HUD is seeking to divest itself of any responsibility to provide the resources and leadership so desperately needed to ensure that the homeless, the near-homeless, and people with disabilities, including HIV/AIDS, have access to housing.

We urge you to carefully examine the legislative changes HUD proposes, both in light of its proposal to eliminate existing McKinney Act programs serving special needs populations, such as Shelter Plus Care and Supportive Housing, and with regard to the comprehensiveness and potential effectiveness of any new "Homeless Assistance Grants" program in serving those populations. When Congress finally has the opportunity to review legislation authorizing the new

program and to have hearings on the proposal, we urge you to keep several vitally important questions in mind:

- First and foremost: do the legislative changes proposed by HUD clearly and unequivocally require that funds be used to provide permanent, supportive housing for special needs populations, including people living with HIV/AIDS?
- Does the legislation permit community-based non-profits to apply for and administer grants, particularly in jurisdictions where the units of local government may be unable to do so either because of inexperience or political pressures?
- Does the legislation provide enough flexibility with regard to activities that may be funded to ensure that a range of supported housing options may be undertaken based on the need of the community -- including rental assistance, new construction or rehab of existing facilities, or community residences -- while at the same time providing sufficient limits on activities to prevent funds from being used to build golf courses or swimming pools instead of housing for the homeless?
- Are sufficient funding levels provided to ensure that communities across this nation have the resources to plan and implement truly comprehensive and long-term housing strategies?
- Are there mechanisms to guarantee that HUD will provide resources and guidance in a timely and comprehensive manner, and to ensure that HUD will provide effective technical assistance, monitoring, oversight, and evaluation of community planning and implementation of the new programs?
- Do these new programs fulfill the intent of this Congress to meaningfully and effectively address the housing crisis facing our nation, and to address the needs of special populations, including people living with HIV/AIDS, which are currently addressed, to some extent at least, by existing programs like Shelter Plus Care and Supportive Housing?

We believe the bottom line is this: the housing needs of special populations, including people living with HIV/AIDS, can only be addressed through specific legislative provisions and programs that create supportive housing programs geared to meet those needs. Broad block grant mandates to "serve the homeless, including special needs populations" will not work and are not acceptable.

HUD's "Consolidated Plan"

We in the AIDS community are all too familiar with the horrors presented by the current maze of applications, regulations, and funding streams that constitutes our federally-sponsored housing system. In fact, the AHOA is in many ways a response to these problems, in that it

creates a flexible, community-controlled, federally-guided housing approach to the problems facing people living with HIV/AIDS in this country. We believe that while this program could be improved in the reauthorization (by amendments such as the one already included in H.R. 3838 to broaden community involvement in the planning and implementation process for AHOA funds, for example), it is a model of the kind of housing program that works.

We agree with HUD that there is a need to create better mechanisms to encourage communities to develop longer-term coordinated housing plans that address the needs of special populations, and to provide the resources and guidance to ensure that communities do so. We do not agree that HUD's consolidation plan is the answer.

HUD proposes to consolidate the planning and application process for four formula grant programs administered by HUD's Office of Community Planning and Development: AHOA, CDBG, HOME, and ESG. Yet HUD's proposal, while prettily packaged, is critically lacking in provisions or criteria for approval, enforcement, or implementation of these consolidated plans. These elements are essential to ensuring that this new consolidated process does not become just a repeat of processes like the CDBG CHAS planning process, which results in detailed paper plans that no-one looks at and no-one enforces, and which -- not surprisingly-- never seem to translate into meaningful and effective community development.

HUD's failure to set out any approval or enforcement criteria for the consolidated planning process is especially troubling with regard to the AHOA programs. These programs are fairly new and involve relatively small amounts of money, especially compared to the CDBG and HOME programs, and there is great danger that AIDS housing and planning will simply get lost in the consolidation process.

Even worse, while HUD itself has evidenced little interest in providing meaningful oversight and enforcement of the consolidated planning process, it proposes to require communities to submit their consolidated plans to local legislative bodies for review and approval. Thus, having developed a process whereby community needs and community input are supposedly solicited and incorporated, HUD leaves the ultimate approval of the communities' consolidated plan to political bodies subject to pressures such as NIMBY-ism and other siting and funding concerns.

HUD's consolidation plan also fails to recognize that a large part of the housing picture for people living with HIV/AIDS involves programs *other* than CDBG, HOME, and ESG, such as the Section 8 rental assistance program, used to maintain housing for people with HIV/AIDS who otherwise would face homelessness; the Section 811 program, which provides supportive housing for persons with disabilities; the McKinney Act Supportive Housing program, which provides both transitional and permanent supportive housing and services to homeless people with disabilities, including HIV/AIDS; and the McKinney Act Shelter Plus Care program, which provides permanent housing for homeless individuals who have chemical dependency, mental illness, or AIDS. Particularly in states and localities that do not qualify for AHOA funds and rely instead on these other programs, the consolidation proposal will do nothing to address the

need for better planning and coordination of those programs.

Moreover, in developing its "consolidated plan", HUD has failed to undertake the logical and effective step of evaluating its current planning and coordination requirements for special needs housing in general or for AIDS housing planning and funding in particular. HUD already requires applicants for AIDS Housing Opportunities Act funds to submit planning documents, for example. Yet HUD has been unwilling or unable to provide us with information about what is in those applications, or to evaluate or monitor implementation of those plans. Without this information, neither HUD nor Congress can truly and knowledgeably assess what changes need to be made.

HUD has made much of its "community forums" regarding this plan, many of which were reported to be little more than "dog and pony shows" by the AIDS housing providers, advocates, and residents who attended them. We have repeatedly voiced concerns about this plan, and many of us have submitted written opposition to HUD's proposal to incorporate the AHOA into the consolidated plan. Unfortunately, HUD has failed to respond to our concerns. Now HUD has announced that it is not interested in receiving any further comments on the plan. I have been informed that as a result of HUD's position, several jurisdictions, including New York, are in the process of requesting waivers from HUD, so that these jurisdictions will not be forced to include the AHOA in this ill-conceived consolidation.

We oppose HUD's proposal to include the AIDS Housing Opportunities Act in its consolidation plan. We do not believe HUD's consolidation plan will in fact result in the meaningful incorporation of AIDS housing concerns in the planning and implementation of the "super" community planning process. We urge Congress to direct HUD to address the issues raised here, to evaluate the effectiveness of current community planning requirements, and to publicly report to Congress and our communities, before it puts the AHOA into any "consolidated planning process".

Conclusion

This Subcommittee has shown great leadership on AIDS housing issues, and on behalf of AIDS Action and people living with HIV/AIDS across this country, I thank you. We support H.R. 3838, and now, perhaps more than ever, we are looking to you to protect what works, work with us to find out what doesn't, and build from there.

Again, thank you for allowing me testify before you today about the critical housing issues facing Americans living with HIV/AIDS across this nation.

FY 94 AHOA METROPOLITAN AREA FORMULA GRANT RECIPIENTS*

<u>EMSAs</u>	<u>FY 94 Grant (in thousands)</u>
Atlanta, GA	3133
Baltimore, MD	1503
Bergen-Passaic, NJ	784
Boston, MA	1553
Chicago, ILL	3096
Dallas, TX	3105
Denver, CO	1406
Detroit, MI	1126
FT Lauderdale, FLA	2600
Houston, TX	4584
Jacksonville, FLA	1776
Jersey City, NJ	1290
Kansas City, MO/KS	1094
Los Angeles, CA	9205
Miami, FLA	5128
Nassau-Suffolk, NY	940
New Orleans, LA	991
New York, NY	32221
Newark, NJ	3368
Oakland, CA	1893
Orange County, CA	947
Orlando, FLA	1511
Philadelphia, PA	2252
Phoenix, AZ	793
Portland, OR	664
Riverside-San Bernadino, CA	885
San Diego, CA	2039
San Francisco, CA	11614
San Juan, PR	4283
Seattle, WA	1035
St. Louis, MO	800
Tampa-St. Petersburg, FLA	1614
Washington D.C.-MD-VA-WV MSA	3390
West Palm Beach, FLA	1824

*Based on information provided by HUD.

FY 94 AHOA STATE FORMULA GRANT RECIPIENTS*

<u>States</u>	<u>FY 94 Grant (in thousands)</u>
Alabama	793
California	3546
Connecticut	1320
Florida	2173
Georgia	836
Indiana	781
Louisiana	659
Massachusetts	756
Minnesota	612
New Jersey	1524
New York	1721
North Carolina	1198
Ohio	1598
Oklahoma	613
Pennsylvania	1060
Puerto Rico	1267
South Carolina	916
Tennessee	869
Texas	2747
Virginia	964

*Based on information provided by HUD.

**SPEAKER'S TASK FORCE
ON HOMELESSNESS**

REPORT TO THE SPEAKER

FINDINGS

AND

RECOMMENDATIONS

(ABRIDGED VERSION)

DECEMBER 1993

INTRODUCTION:

On February 11, 1993, the Speaker of the House, Tom Foley, announced the formation of the Speaker's Task Force on Homelessness organized at the request of President Bill Clinton. The following Members of Congress served on the Task Force chaired by Representative Bruce F. Vento: Rep. Lucien Blackwell, Rep. Cardiss Collins, Rep. Lane Evans, Rep. Barney Frank, Rep. Henry Gonzalez, Rep. Joseph Kennedy, Rep. Dale Kildee, and Rep. Mel Reynolds.

Over the course of the last eight months, the Task Force adopted a mission statement; attended briefings and hearings related to homelessness; held a number of meetings with advocates and representatives of government and other organizations; issued letters of support or recommendations for actions to Federal Departments, Congressional Committees, Vice President Gore and President Clinton; held additional meetings in Washington, DC and Congressional Districts; cosponsored and worked for legislative initiatives; and drafted reports recommending courses of executive and legislative branch actions to prevent homelessness and better serve those who are homeless in our country.

These activities and the recommendations of the Task Force Members are included in this report of the Speaker's Task Force on Homelessness.

As Members of the Task Force, we would like to take this opportunity to thank all those individuals and organizations whose input into our meetings, activities and reports was essential. There is no copyright on good ideas and we have taken and do recommend many of the ideas of others.

We would like to recognize Kirsten Johnson, chief legislative staff to Representative Vento, for her tireless efforts in researching, organizing, and scheduling the numerous meetings and for making a significant contribution to the successful deliberations of the Speaker's Task Force on Homelessness. We also recognize all our staff members who worked on the Task Force this past year; John Valencia, Darryl Ward, John Gray, Jeff Lande, Jill Morningstar, Jonathan Miller, Tom Kelly, Jim Schufreider, and Dorothy Jackson.

THE SPEAKER'S TASK FORCE ON HOMELESSNESS
MISSION STATEMENT:

1. Improve inter- and intra- communication and coordination between the federal executive and legislative entities responsible for homeless assistance and prevention programs.
2. To the extent feasible, be sure that federal policies take into account the demographic trends of the US population and the structural changes in the economy that have contributed to the rise in homelessness, i.e. the nature of work and incomes, the affordability gap for low-income housing, and shifts in population.
3. To the extent feasible, be sure that federal policies take into account the roots and causes of homelessness, i.e. lack of affordable housing, health care, mental health care, substance abuse treatment, jobs, job training, underemployment, and the disintegration of social fabrics, specifically the family.
4. Examine how federal policies can assist people in dealing with the transitions expected of people in the 1990s and into the next century.
5. Determine which federal and other programs work and which ones don't work -- for both targeted homeless programs and mainstream programs. Recommend statutory and administrative initiatives to better or change these programs, e.g. welfare hotels.
6. Develop policies and/or programs that reduce homelessness through better intervention and prevention.

ACTIVITIES OF THE SPEAKER'S TASK FORCE OF HOMELESSNESS:

Over eight months, the Speaker's Task Force met ten times at regular morning meetings. During those meetings, the Members met with a number of organizations including the General Accounting Office, representatives from the Beyond McKinney Principles and Policies, the Fannie Mae Foundation, the National Law Center on Homelessness and Poverty and the Homeless Veterans Coalition. Representatives from the Interagency Council on the Homeless also monitored the meetings when possible.

A majority of the Task Force Members signed over a dozen letters endorsing or critiquing actions, funding levels or other activities relating to homelessness and federal policies. Copies of those letters are included in Appendix A. Responses to those letters are included in Appendix B.

The Task Force served as an informal clearinghouse for publications, briefings, hearings, conferences and other events. The Federal Emergency Management Agency held an Emergency Services Roundtable for the Task Force and others. Several briefings were held on Capitol Hill either promoted by or attended by the Task Force Members and staff including a briefing on Homelessness (in conjunction with a Government Operations Housing, Employment and Aviation Subcommittee) with presentations by the National Alliance to End Homelessness, the National Coalition for the Homeless and the National Law Center on Homelessness and Poverty, and a Briefing on national AIDS policies and issues. Members of the Task Force also participated in a Housing and Community Development Subcommittee hearing at the Community for Creative Non-Violence (CCNV) shelter on the tenth anniversary of the Subcommittee's first hearing there.

Members of the Speaker's Task Force on Homelessness also completed a number of reports on specific topics which follow the recommendations of the Task Force.

Agendas of the meetings of the Task Force are included in Appendix C.

EXECUTIVE SUMMARY:

Concentrating this year on the problems of people experiencing homelessness or those who are near-homeless, the Speaker's Task Force on Homelessness (Task Force) has found that many efforts at the federal, state and local levels have been successful in preventing people from becoming homeless or assisting people who are experiencing homelessness. Unfortunately, the growing magnitude of homelessness during this time in our nation's history impedes these successes and points to the need to improve the tools designed to serve some of the nation's most vulnerable citizens, the homeless.

Homelessness can be viewed as an extreme form of poverty. While, a notable portion of the people who are homeless at a point in time may have contributing complications, such as mental illness or substance abuse problems, over the continuum, a far greater proportion of people who are homeless have been victims of structural economic change, the recession or continuing social inequities.

The Task Force acknowledges the role of and proposes continued improvement of the programs under the rubric of the Stewart B. McKinney Homeless Assistance Act (McKinney Act) and other programs whose mission is to serve people who are homeless. The initial purpose of the McKinney Act was to meet emergency needs, develop models and demonstrate ways in which existing services could be transformed to meet those needs. Some McKinney programs have provided significant and perhaps sufficient information to render emphasis on models and demonstrations less necessary. Others are performing and will continue to perform vital roles in areas such as transitional and permanent housing, job training, and health care.

It is clear, however, that we cannot solve the problem of homelessness through McKinney Act programs alone. Reliance on these programs, in effect, has tended to balkanize and compartmentalize our response to homeless persons with approximately a billion dollars of funding annually. Such a limited amount of federal financial commitment, even when combined with outstanding state, local, and private non-profit group efforts, will not seriously afford the proper response to the crisis of homelessness in America in 1994.

The Task Force recognizes that "mainstream programs" of the appropriate Federal, State and local departments of housing, human services, education, and job training need to be more responsible and responsive even as Congress funds specific McKinney or other homeless programs. While many of these agencies' programs worked in the 1950s, they can't solve the problems of the 1990s. They must work to meet people where they are at today. Programs must engage in outreach and follow the need -- not merely follow a "build-it-and-they-will-come-mentality." McKinney programs can appropriately be viewed for emergency and

transitional purposes. Mainstream programs must interface with the population in need, addressing the root causes of today's homeless persons before they become homeless.

Economic changes have been accompanied by profound social changes in the family, support networks and communities. What is most apparent is the interrelated nature of such social and economic phenomena. We must look for answers that strengthen stability of the family unit; encourage volunteerism and responsibility to the community; and mend the torn social fabric our nation is experiencing today.

While strides have been made this past year, including the expansion of the Earned Income Tax Credit, the Leland Hunger Relief and the Family Preservation programs (efforts supported by the Task Force, see appendices A and B), there is a long way to go before the dire impact of poverty is arrested in our nation.

There are strong links between the changing economic structure, transforming population, growing poverty and homelessness. For sub-populations of the homeless (veterans, families with children, mentally ill, substance abusers), the failure of the current public safety-net programs for these Americans must be examined and repaired.

The increase of children in poor, female headed households has occurred during a period of declining real value of welfare payments. Actual rent burdens have increased and low-cost housing stock is less available in areas of economic opportunity. Tellingly, only Alaska and Hawaii pay enough in welfare and food stamps to keep a family above the official poverty level.

The Task Force recognizes that funds spent through McKinney Act programs and others have been well-used. However, this aid had been eclipsed by the growing problem of Americans falling through weakened safety nets and the growth of the human deficit. There have been plenty of examples of outstanding service, but we must continue to engage the private sector, non-profits, local, state and federal governments as partners in this effort.

The Task Force Report that follows proposes a number of actions and improvements that can be made to promote better services for the prevention of homelessness through the McKinney Act and especially through housing, income maintenance, food stamps, health benefits and other "main stream" programs such as SSI, AFDC, and public housing.

SUMMARY OF TASK FORCE RECOMMENDATIONS:

I. IMPROVE AND INCREASE ACCESS TO AFFORDABLE HOUSING

1. Increase affordable housing opportunities and establish better service partnerships with and in housing.

II. ENSURE ECONOMIC SECURITY

2. Create jobs, set an adequate minimum wage and improve continuity between job training and employment.
3. Reform and improve income support programs, such as SSI, Welfare (AFDC), WIC, Food Stamps, EITC, the Child Care Block Grant, LIHEAP, and HEAD START. Ensure that reforms consider the specific needs of persons who are homeless.

III. PROVIDE NECESSARY SERVICES TO PREVENT HOMELESSNESS

4. Ensure current health care programs and reform initiatives meet the physical and mental health needs of people experiencing homelessness. Encourage health clinic outreach.
5. Provide education for children and adults who are at-risk or are experiencing homelessness.

IV. CHANGE OUR NATIONAL APPROACH TO HOMELESSNESS

6. Begin a national campaign to focus attention and resources.
7. Assure and maintain the rights of individuals who experience homelessness.
8. Streamline homeless programs and existing social service benefits (i.e. access to services) when a person experiences homelessness. Consolidate program applications and make as them as flexible as possible to meet the needs of the homeless population.
9. Encourage interagency participation and federal/state agency responsibilities and outreach. Ensure that "mainstream programs" meet the needs of the homeless.
10. Renew concentration on the prevention of homelessness.
11. Empower people who are homeless to do what they can for themselves in order to avoid dependence and promote independence and self-reliance.

TASK FORCE RECOMMENDATIONS

I. IMPROVE AND INCREASE ACCESS TO AFFORDABLE HOUSING

While an ongoing debate exists regarding the actual count of people who are homeless in the United States, there is no question that there is a continuing and growing crisis in our urban centers and along our rural routes. The incidence of homelessness has been exacerbated over the last decade by the tremendous reductions in rental housing assistance to low-income persons.

Funding for rental housing was drastically cut throughout the 1980's and the cuts continued in the early 1990's. The Department of Housing and Urban Development (HUD) assisted housing budget was approximately \$26.7 billion in fiscal year 1980 and was reduced to a \$8.4 billion level by fiscal year 1992. The House Banking Subcommittee on Housing and Community Development estimates that it would have taken \$46.6 billion in FY 1992 to replicate the FY 1980 funding level. Therefore, this commitment represents an approximate 82% reduction for the assisted housing programs between FY's 1980 and 1992 dollar terms (based on Congressional Budget Office information).

The National Low-Income Housing Coalition reports that despite more than 50 years of government efforts, more than twice as many renter households are eligible for HUD housing assistance than actually receive it. Among very low income renters, for whom affordable housing shortages are the most acute, more households in real need go without help than those fortunate few who have gained a HUD subsidy.

There is a staggering shortfall of assisted housing. According to one National Association of Housing and Redevelopment Officials (NAHRO) survey, 1.1 million households nationwide were on waiting lists for Public Housing at the end of 1990. Approximately 1.2 million were on waiting lists for privately owned subsidized housing. The same survey found that the average wait for families at large public housing authorities was 21 months for a public housing unit. Some have estimated that over a million and a half people experience homelessness over the course of a year and one study found that 7.4% of the total U.S. population has been without housing at some time in their life.

HUD's analysis of the 1989 American Housing Survey eliminates any doubt about the extent of the crisis. A total of 5.1 million very low-income renters are estimated to either pay more than one-half of their income for housing; live in seriously substandard housing, or suffer from a combination of both problems.

RECOMMENDATIONS**1. Increase Affordable Housing Opportunities and Establish Better Service Partnerships with and in Housing:**

** Housing costs have greatly increased during the same time period that many incomes of those at-risk of homelessness decreased. Addressing this phenomenon, known as the housing gap, is key. According to advocates for low-income housing, in 1970, there were a few more affordable units than people seeking them (defining affordable as 30% of income and examining the bottom quarter of renter households). By 1989, there were almost three times as many households as there were affordable units. In order to make any headway in preventing and ending homelessness, we must greatly increase permanent affordable housing through improving and funding public housing development and modernization, Section 8 Certificate and Vouchers, the Low-Income Housing Tax Credit, Mortgage Revenue Bonds, FHA mortgage insurance, the preservation of existing subsidized housing units, the McKinney Act transitional and permanent housing programs, the various SRO programs, and the AIDS Housing Opportunity program. Goals should be set and adhered to in order to make this increase, however incremental it may be. Partnerships should continue to be forged with the private sector including real estate agents, mortgage bankers, mortgage insurers, and the government-sponsored enterprises, the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association (Freddie Mac and Fannie Mae, respectively).

** Reinstate HUD Federal Housing Administration (FHA) single family property disposition policy for the homeless and the program allowing organizations serving homeless people to obtain foreclosed homes under a \$1 per year leasing; including the right of first refusal for homeless organizations within the first 30 days.

** Assure that single and multi-family property disposition programs at other agencies, such as the Farmers Home Administration, the Resolution Trust Corporation, the Federal Deposit Insurance Corporation, and the Department of Veterans Affairs develop and use, to the extent feasible, similar programs for homeless providers or near-homeless persons.

** Ensure that efforts at HUD, Farmers Home, and the Department of Veterans Affairs are also focused on rural housing needs and the needs of Native Americans.

** Allow the use of FHA multi-family mortgage insurance for Single Room Occupancy (SRO) units.

** While the vast majority of Public Housing Authorities are functioning well

and providing much needed housing, a joint HUD/NAHRO survey found that in 43 troubled housing authorities, an average of 20 percent of the housing units are vacant. The Center on Budget and Policy Priorities report, "A Place to Call Home, November, 1992) found that about 80,000 public housing units across the country are vacant. Some 70% of these are vacant because they are undergoing or are in need of renovation. These vacancies need to be turned into safe and affordable housing.

**** Improve McKinney Title V Surplus Properties Program:**

- Federal agencies should provide more outreach to groups/potential applicants who work on homelessness issues about opportunities under this provision of law.

- Federal agencies should offer longer lease terms, unless compelling need necessitates a shorter term. Applicants are finding it difficult to obtain leases longer than 2 or 3 years, which make it almost impossible for approved applicants to obtain funds necessary for long-term rehabilitation benefit. Many of these properties are base closure properties, for which the government will have no use in the future. Therefore, there is no apparent reason why these properties can not be made available for a longer period of time.

- Allow surplus properties to be used for permanent housing when appropriate. HHS regulations currently do not allow use of Title V properties for permanent housing. By changing these regulations, the McKinney Act will be more effective in attaining its stated purpose of bringing relief to the homeless on a long-term basis. The local and state governments must be engaged. (The Task Force sent a letter expressing this view to the Secretaries of HUD and HHS. See Appendices A and B.)

- Simplify the application and lease negotiation process for military properties. Even though military bases are properties with the greatest potential, the Department of Defense procedures have caused problems which make it difficult to obtain them for this purpose. Furthermore, there is some confusion on the part of the DoD as to whether they or the General Services Administration have control over the administration of these closed bases.

Two steps can be taken to alleviate this problem: (1) Require DoD to make existing unclassified property information promptly available to applicants. Applicants have reported difficulties in obtaining written property information on maintenance and utility records, which are

needed for cost estimates necessary in the completion of a successful application. (2) Require DoD to assign a single contact person who will assist the applicants in obtaining property-relevant information necessary during application and lease negotiation process. Organizations have reported difficulties concerning multiple contact persons, as well as conflicting information stemming from these contacts. By establishing one contact person, someone in charge, to assist the applicant during the application process, these problems can be alleviated.

II. ENSURE ECONOMIC SECURITY

The last two decades have been a time of profound social change accompanied by a significant structural economic adjustment and recession, with employment dislocation during the 1980s and into the 1990s. The U.S. population has been and is continuing to shift from central cities to the suburbs and bedroom communities. The economy, and especially employment, has shifted from manufacturing to service employment and as the population moved, so did the jobs. The suburbanization of home and work left central cities with lower revenue bases, less jobs and greater demands for social services.

An overall aging population in the U.S. logically resulted in an older workforce, characterized by less flexibility to retrain, change occupations or move to new places. The growing obsolescence of many older urban areas in terms of jobs and the rapidly changing nature of work and skills required for work left central cities with a population group of unemployed persons without appropriate skills or mobility to follow the flight of capital and jobs.

Throughout the 1980's, the disparity of income between affluent and poor Americans increased. For example, the number of Americans living in poverty increased from 27.4 million to 31.7 million from 1980 to 1990 and has risen to 36.9 million in 1992. The trends show that the poverty rate for children continues, as it has since 1975, to be higher than that for any other age groups. Children constitute 40% of the poverty population and one in five children live in poverty.

According to a document entitled "Family Self-Sufficiency: Linking Housing, Public, Welfare and Human Services" consisting of papers from a joint conference with NAHRO and the American Public Welfare Association (APWA), Labor Department data have shown that after adjusting for inflation, hourly wages for "nonsupervisory" workers were lower in 1989 than at any point since 1970. Additionally, some two million workers were employed full-time in 1989, but had incomes below the poverty line.

Concurrently, the cash assistance programs that help met the costs of housing, food and other necessities have not kept up. According to "A Place to Call Home," cash assistance levels in the 44 metro areas in the American Housing

Survey are too low to make housing affordable for poor households. "In the median state, the AFDC benefit for a family of three with no other income declined 43 percent between 1970 and 1992, after adjusting for inflation." In 40 of the 44 metro areas, the cost of a modest two-bedroom apartment, as reflected in HUD's Fair Market Rent (FMR) levels, is greater than the entire AFDC benefit for that same family of three. In calendar year 1991, the monthly federal SSI guarantee level was \$422 for an individual and \$633 for a couple. The benefit levels equaled 71 percent of poverty level for an individual and 83% of the poverty level for a couple based on estimated 1992 Census Bureau poverty thresholds for a one- and two-person family respectively.

RECOMMENDATIONS:

2. Create Jobs and Set an Adequate Minimum Wage and Improve Continuity between Job Training and Employment:

** Support a livable minimum wage. Part-time workers, temporary workers, or independent contractors are being hired instead of permanent full-time workers -- often at minimum wage. The real value of the minimum wage has not kept pace with the cost of living. In 1968, a full-time worker earning minimum wage was able to keep a family of three 20% above the poverty line. Today, the minimum wage of \$4.25 an hour, has over 25% less purchasing power in 1992 than in 1970 based on increases in the consumer price index.

** National and community service programs should reach out to persons who are homeless through community channels and elsewhere.

** Ensure that people experiencing homelessness are targeted by federal job training programs. There are over 150 federal job training programs spread across the various departments and agencies. These programs could be used to better serve homeless persons within the parameters of their programs.

** Emphasize long-term outcomes in federal job training programs - especially job training for the homeless and under the Job Training Partnership Act (JTPA). Modify JTPA to allow stipends and services related to employability, such as clothing, child care, transportation, and bathing and laundry facilities to enhance the opportunity for the homeless participants. If necessary, increase resources for job training programs.

3. Reform and Improve Income Support Programs such as Food Stamps, EITC, AFDC, SSI, the Child Care Block Grant, LIHEAP, HEAD START, and WIC. Ensure that any Reforms Consider the Specific Needs of Persons who are Homeless:

**** SSI:** The Supplemental Security Income program makes monthly payments to people who are 65 or older, disabled, or blind and have little or no income or assets. Improvement in four inter-related areas would improve SSI accessibility to the homeless: outreach, eligibility, logistical barriers, and benefit levels. Improvement in any one area, without concomitant improvement in the others, will not adequately improve accessibility.

- EXPAND OUTREACH: Authorize appropriations for adequate staffing needs (SSA administrators recommend 6,000 additional hires in order to begin to reduce processing backlogs); Expand SSA outreach efforts, authorizing additional funding for SSI outreach demonstration programs; Expand training of paraprofessionals to conduct intake on the street; d) Accelerate re-establishment of local SSA phone service; Develop legislation mandating a specific program of recruitment, training, and monitoring of representative payees and authorize the appropriation of funds to implement the program.

- BROADEN ELIGIBILITY: Consider adoption of the definition of homeless for purposes of receiving SSI "Emergency Payments" as contained in the Stewart B. McKinney Homeless Assistance Act; Remove current restriction on SSI eligibility for homeless residing in public shelters from 6 months in any 9 month period to an indefinite period of time. Homeless individuals residing in private shelters are not subject to this restriction.

- REMOVE BARRIERS TO BENEFITS: Re-establish local phone service for SSA offices, with published phone numbers, replacing 800 service; Require SSA to develop a "back-up" mailing address for homeless or mentally ill individuals; Encourage SSA, in cooperation with other public/private agencies, to assist homeless people with transportation SSA offices for appointments.

- INCREASE BENEFIT LEVELS: Raise the Federal SSI benefit standards to the poverty level or above (current benefit levels equal 71 percent of poverty for an individual and 83 percent of poverty for a couple; Re-examine current formula for reducing SSI benefits when a recipient gains employment to encourage and incentivize work. Currently, up to the first \$85 of income is disregarded relative to SSI benefits. After that threshold has been reached, there is a \$2 reduction in benefits for every \$1 in income. This can serve as a disincentive to SSI beneficiaries to work.

**** WELFARE REFORM:** Urge that the President's Welfare Reform Task Force to be sensitive to the problems of the mentally ill and substance abusers. The

cornerstone of the President's welfare reform is making work pay and the consideration of the establishment of a two-year limit for able-bodied AFDC recipients.

- As the specifics of the plan are outlined and developed, if a time limit should be imposed for benefits, the Welfare Reform Task Force should ensure that the definition of "able-bodied" is sensitive to all kinds of mental illness and people who have substance abuse problems. People who have intermittent mental illnesses, for example, may be classified as able-bodied and may not get the services they need or may not be able to meet the standards of the job training programs.

- Further, for people who have intermittent episodes of mental illness and substance abuse problems, the trauma of being summarily ousted from AFDC may cause a major bout of illness which could lead to homelessness.

- Continue to explore methods of providing housing in combination with support services through Emergency Assistance (E.A.) as a better and less expensive method of helping homeless families than welfare hotels, such as utilizing HUD, RTC or other surplus properties in conjunction with community services. HUD and HHS should comply with statutory requirement to eliminate welfare hotels by July, 1994. (Refer to letters in Appendices A and B)

**** WIC:** The Women, Infants and Children (WIC) nutrition program is a good example of a program reforming to meet the needs of homeless persons. As required in P.L. 102-342, the WIC program made "homelessness" a nutritional risk for WIC purposes. (Refer to letters in Appendices A and B).

**** FOOD STAMPS:** The Budget Act of 1993 (P.L. 103-66) provided changes in the Food Stamp program aimed at ensuring adequate food assistance, promoting self-sufficiency among Food Stamp recipients and simplifying the program. The Act made a number of changes in exclusions and deductions used to determine household income for determining eligibility and benefit levels, including an exclusion from income for the full amount of AFDC housing assistance payments made by states to third parties on behalf of families living in transitional housing for the homeless. However, the increase in basic Food Stamp benefits from 103% to 104% of the cost of the USDA "Thrifty Food Plan" was not included. Nor was an exclusion for all types of educational assistance and the exclusion of the first \$50 per month in child support payments received by a household. Such provisions would also be positive improvements to the Food Stamp program.

**** EITC:** The Earned Income Tax Credit (EITC) is another good example of

successfully adapting a program to meet the needs of today. The Budget Act of 1993 (P.L. 103-66) increased the refundable tax credit for working families with children and for the first time expanded EITC to families without children. The expansion to single adults should be monitored and evaluated to determine if it should be further expanded in the future.

****** Make all income support programs more accessible to persons who are homeless by improving outreach, conforming applications for assistance, shortening waiting periods, creating one-stop benefit application points and utilizing programs like electronic benefits systems where appropriate.

III. PROVIDE NECESSARY SERVICES TO PREVENT HOMELESSNESS

Proper and appropriate services are necessary to serve the needs of the people who are homeless or at risk of becoming homeless. In particular, comprehensive health care and solid educational opportunities can prevent homelessness and empower persons who are homeless to lift themselves up and off the streets or out of the shelter system.

Health care costs can be a cause or consequence of homelessness. The lack of insurance coverage has significant impact on access to even routine health care in the case of lower income families. Residents in isolated inner cities and rural communities are likely to be predominately less affluent than other areas and therefore have problems in attracting and retaining health personnel. Notably, in the nation as a whole, of the \$800 billion that will be spent this year on health care, roughly \$8 billion, or one percent, will be given to local public health departments. Additionally, the significant challenges of AIDS, tuberculosis, substance abuse and mental illness face public health providers for health care for the homeless.

As for education, the McKinney Act requires that each State Education Agency (SEA) ensure each child of a homeless individual and each homeless youth access to a free and appropriate education. SEA's are to collaborate with local educational agencies (LEA's) in designing and implementing local programs which are consistent with their state plans.

The complexity of access, placement, transportation, and instruction issues involved in educating the homeless population underscores the significant challenges confronting SEA's and LEA's. Because homeless children and youth, by definition, lack permanent shelter, and typically have limited access to adequate clothing, nutrition, and health services, their capacity to benefit from schooling is a significant SEA and LEA responsibility.

The law does not deal adequately with a major barrier that homeless children face - transportation. In fact, both health care and education services share this complication which is critical for service provision, but is often cited as prohibitively expensive.

RECOMMENDATIONS

4. Ensure Current Health Care Programs and Reform Initiatives meet the Physical and Mental Health needs of People Experiencing Homelessness. Encourage Health Clinic Outreach

****** Support increased funding of Health Care for the Homeless and other community outreach health and migrant health programs.

****** Ensure that comprehensive national health care plans include health care for homeless persons and those at-risk of homelessness. Enrollment policies should not be barriers for homeless persons. If eligibility is phased in (as is likely) current public health and community-based health care programs - especially the Health Care for the Homeless program - should be funded at the highest possible level.

****** Encourage continued and additional funding for other public health programs including community health centers, migrant health centers and the public housing residents' services. Central to national health care reform is the inclusion of funds in a national health plan to develop, support and maintain community-based comprehensive health care and outreach for medically under-served communities - including the homeless.

****** Insist that comprehensive health plans are just that - comprehensive. Substance abuse treatment, mental health treatment and other critical services should not be out of reach to those who need them. Substance abuse and mental health benefits should be separate benefits. The President's Health Security Act has included mental illness and substance abuse treatment as part of the basic benefits package. The plan will include both residential and outpatient care and will include incentives to ensure integrated, comprehensive care to deal with these problems.

****** Work to better integrate Federal services and housing programs, especially through existing programs like Housing Opportunities for People With AIDS (HOPWA), Shelter Plus Care, Supportive Housing and the various HHS health care and substance abuse treatment programs. Create new integrated, flexible programs or alter current programs if necessary to better facilitate integration. The convergence of shelter and service needs of the vulnerable homeless population has irreversibly linked the responsibilities and mission of a myriad of what had been separate programs that now need to be drawn together and focused on those who utilize and deliver such programs.

****** Help strengthen the relationship between the Centers for Disease Control and providers of health care to the homeless in order to better control communicable diseases like TB and HIV/AIDS. Provide additional resources where

necessary.

** Make sure that the Block Grant for Prevention and Treatment of Substance Abuse grant under the new Center for Substance Abuse Treatment (CSAT) at the Substance Abuse and Mental Health Services Administration (SAMHSA) serves the homeless as one of its special populations.

** Amend the Alcohol, Drug and Mental Health Administration (ADAMHA) Reorganization Act to recognize and include homeless people who have substance abuse addictions without mental illness by directing the CSAT to include homeless people as one of their critical populations to receive services. (SAMHSA reauthorization is due in 1994)

** Maintain the President's concept of crucial Health Care Access Initiatives: Universal coverage is the highest priority in addressing mental illness and substance abuse among the homeless population.

- The President's access initiatives specifically impact the homeless by targeting the mentally ill and substance abusers as population groups that face additional barriers to good health care.

- Access initiatives will make grant applications for target populations easier and therefore integrated care easier; provide grants for outreach to help targeted populations; and, cover problems other than those in the basic benefits package to reduce morbidity and mortality within these populations.

** Support residential substance abuse programs for single individuals and adults with dependents.

5. Provide Education for Children and Adults

** Focus on enabling homeless children to achieve the same standards expected of all children by making them eligible for Title I services regardless of where they attend school.

** Eliminate the focus on remedial education and substitute a high-quality academics in the references to educational services.

** Require that state plans for homeless children be reviewed through a peer evaluation process.

** Add a requirement to the McKinney Act program that states describe their

activities to identify homeless children and determine their needs and the results of these activities. This would replace the child count requirement, enabling states to focus on serving children rather than on creating numbers to meet a federal requirement.

** Add a requirement to the McKinney Act program that education transportation be provided, to the maximum extent possible, at no cost to homeless children and youth.

** Encourage extension of program services to preschool children, by clarifying that activities for these children can be funded and by requiring equal access to available public preschool programs.

** Take full advantage of the range of available community services for homeless children, permitting before and after school services to be provided on public and private property, including sectarian property where this is constitutionally permissible.

** Require school districts to abide by a parent or guardian's request to enroll a homeless child in a particular school, unless there is a compelling reason not to do so.

** Require that all districts in which homeless children reside or attend school designate a staff person to serve as a homeless liaison.

** Continue providing targeted adult literacy programs that serve persons experiencing homelessness and those at-risk of homelessness.

IV. CHANGE NATIONAL APPROACH TO HOMELESSNESS

Key to the success of ending homelessness in America is an evolution in approach, both in programs and in the overall recognition of who, why and where people are homeless. Although the perception is that there is decreased public empathy or a sort of "compassion fatigue" for people who are homeless, a poll published in the November 1, 1993, Business Week indicated that 81% of Americans would be willing to pay higher taxes specifically to increase government spending on homelessness.

The McKinney Act and other programs whose mission is to serve people who are homeless are working. The initial purpose of the McKinney Act was to meet emergency or crisis needs, develop models and demonstrate ways in which existing services could be transformed to meet those needs. Some McKinney programs have provided significant and perhaps sufficient information to render emphasis on models and demonstrations less necessary in the future than in the

past.

It is clear, however, that homelessness will not be ended through McKinney Act programs alone. "Mainstream programs" of the appropriate Federal, State and local departments of housing, human services, education, job training, and others need to be more responsible and responsive even as Congress funds specific McKinney or other concentrated homeless programs. Mainstream programs must streamline, link services and housing, replicate successful models, encourage cooperation between layers and levels of public and private sector entities, empower people who are homeless to help themselves and promote prevention programs. This kind of effort calls for a high degree of communication and collaboration and can ultimately save precious human and financial resources. In fact, the recently published Clinton Administration National Performance Review led by Vice President Gore renewed the call for just such interagency cooperation and responsibility in programs that serve the homeless.

RECOMMENDATIONS

6. Begin National Awareness Campaign to Focus Attention and Resources

** National, state and community leaders should engage in a campaign, formal or informal, to promote awareness and to garner the support necessary to end homelessness. This campaign could be "kicked-off" by a White House Conference or Summit on Homelessness and Housing.

- President Clinton should be commended for recommending the establishment of the Speaker Foley's Task Force on Homelessness and for his May 19, 1993, Executive Order calling for a federal plan to Break the Cycle of Homelessness.

7. Assure and Maintain the Rights of Individuals Who Experience Homelessness

** Americans who are experiencing homelessness are entitled to the civil rights extended to all Americans. For example, most Task Force Members are cosponsoring legislation to ensure voting rights for homeless individuals, H.R. 1457, the Voting Rights of Homeless Citizens Act of 1993.

** HUD and the Department of Justice should put forth stronger efforts to direct enforcement of the Fair Housing Act and Americans with Disabilities Act

toward the unique needs of the homeless and near homeless populations.

** Recognize the deinstitutionalization phenomena and the need to provide appropriate substance abuse and health care services for those living in communities with mental and physical disabilities.

8. Streamline Homeless Programs and Existing Social Service Benefits (i.e. access to services) When a Person Experiences Homelessness. Consolidate Program Applications and Make Them as Flexible as Possible

** Encourage county, state and federal programs to create "one-stop" centers for provision of services and benefits. Innovations, such as Electronic Benefits Transfer, should be encouraged when and where appropriate. The possibility of funding state coordinators for homeless programs should be explored.

** Current McKinney homeless assistance program should be administered better. Federal Agencies should consider common applications for all McKinney programs -- not just for the programs under the Department of Housing and Urban Development, but extended to other departments and agency applications processes. Synchronize the release of Notice of Funds Availability (NOFAs) and Request for Proposals (RFPs). Evaluations should be completed, read and utilized to improve programs and ensure the McKinney funds are spent in a cost-effective manner. These tasks could be explored and implemented through the reconfigured federal Interagency Council on the Homeless.

** Wherever and whenever possible, the Federal government should encourage an overall housing and services system to be developed and implemented through the cooperation of State and local government agencies, nonprofit provider organizations, foundations, private businesses, and homeless persons. For example, improve community planning and make it enforceable and workable.

** Promote the dissemination of information about and the replication of successful model and innovative homeless programs:

Common Attributes of Successful and Innovative Programs:

- + Comprehensive - in addition to providing temporary shelter and housing assistance, many programs offer services, such as job training and counseling, physical and mental health services, substance abuse treatment, clothing, and legal assistance.
- + Follow-up - the most successful programs follow and continue

to help individuals even after they have moved out of the shelter.

- + Require commitment from homeless - many programs require homeless persons to either work and contribute a portion of their income to pay for shelter, go to school, or do voluntary community service. With regard to teenagers, these programs require them to stay in or return to school.
- + Knowledgeable and dedicated staff - while this is an obvious point, the lack of available funds for staff purposes makes recruiting and retaining good staff very difficult. The best programs are successful in obtaining funding and other resources as well as recruiting/retaining staff and volunteers.
- + Staff who know the full range of social services that are available to the homeless and are able to navigate the bureaucracy to gain access to those services. For example, a good provider would know that a homeless veteran may be eligible for VA services, such as health care and perhaps, disability compensation.
- + Cooperation with local organizations - a common element of the programs we examined was that they took the time to develop and maintain good working relationships with local community and religious groups as well as local and federal governmental agencies.
- + Tap variety of sources of funds - since funds are limited, successful providers have developed the skills necessary to obtain funding from a variety of sources, including foundations, state and local programs, and federal agencies. Others have started making services, such as child care, available to the community at large for a fee.
- + Innovative financing - in addition to finding and tapping into numerous sources of funds from programs devoted to serving the homeless, providers and state and local government can work together to develop innovative uses of tax-exempt, long-term financing, or to attract private capital.

9. Encourage Interagency Participation and Federal/State Department Responsibilities and Outreach. Ensure that "Mainstream Programs" Meet the Needs of People Experiencing Homelessness

- ** Maintain, reinvigorate and fund an effective federal Interagency Council on

the Homeless with all relevant members, with truly independent status outside the control of any department (i.e. the Department of Housing and Urban Development) possibly under the auspices of the Office of the Executive at the White House to ensure coherent focus. While existing in name, this entity has not fulfilled its mission in the past and must be re-invigorated to reframe the host of federal and state programs and their potential to serve the people who are homeless. (Refer to letters in Appendices A and B)

** Encourage through statute or otherwise all federal, state and local agencies to take responsibility for their "mainstream" programs that could and should serve people who are homeless and meet clients where they are most vulnerable. For example: examine possible barriers to service; encourage better targeting, outreach, and staff training. In addition all programs should determine what are the access problems, documentation requirements and possible structural problems that persons experiencing homelessness face when attempting to access benefits.

- For example, part of the problem of assistance for homeless veterans is that veterans are usually thought of as part of the general homeless population rather than as a distinct group that may require separate intervention programs. This means that the primary federal agencies addressing the needs of homeless veterans have typically been the Departments of Housing and Urban Development (HUD) and Health and Human Services (HHS) rather than the Department of Veterans Affairs (DVA) - agencies that have neither the experience nor expertise to deal with a veteran's unique problems.

- While every effort to assist the homeless is important, there must be an increased effort to address the specific problems facing homeless veterans. The DVA's programs must be expanded and coordination between the DVA and other federal agencies as well as community-based organizations (CBOs) needs to be improved. Furthermore, the success of several homeless veteran assistance programs, which are run by veterans, reinforce the point that more attention must be given to the notion that some homeless veterans might be best served by other veterans.

Specific Recommendations for Veterans:

- The DVA should establish a task-force charged with developing a workable plan within 100 days to utilize guaranteed distressed property inventory and, to the maximum extent possible, make the homes available to community-based non-profits for renovation and

use to serve homeless veterans.

- The Resolution Trust Corporation (RTC) is currently working with the National Coalition for Homeless Veterans (NCHV) to assist them in providing affordable housing for veterans. The same services could be utilized for DVA properties. Further, since the DVA has the ability to finance the sale of property to individual veterans, it should also be able to finance the sale of properties to not-for-profit corporations which are of, by and for veterans.

- Transitional programs must be strengthened. For example, DoD's Transition Assistance Program (TAP) and discharge planning programs should be expanded. Making the transition from military to civilian life is difficult even when the economy is booming. Discharged military personnel need to be given the information and training necessary to successfully re-enter civilian life and the complex economy and world of work in the 1990s.

- DVA should improve outreach to nonprofit providers and provide technical assistance in obtaining financing for the purchase of transitional housing properties.

- As suggested by Jesse Brown, Secretary of the DVA, the DVA should appoint a homeless "czar". This individual would serve as point person on homeless issues and be responsible for the coordination of all DVA homeless programs.

- Increase the level of federal funding available to community-based organizations (CBOs) serving homeless veterans. For example, P.L. 102-590, "The Homeless Veterans Comprehensive Service Programs Act of 1992," establishes a grant program to support non-profit and public entities serving homeless veterans. However, while this Act is authorized at \$48 million per year, only \$8 million has been appropriated for FY 1994.

- DoD and DVA should be commended for their participation with "Stand Down" programs and are strongly encouraged to continue such outreach and increase their involvement.

- The Congressional GAO is apparently examining DVA's discharge planning program. Its report should be studied and appropriate changes implemented as soon as possible.

- The DVA should continue to pursue the development and installation

of computerized inventory and tracking system so that an individual's prescription record can be accessed by any DVA medical facility.

- DVA should consider establishing a pilot program at DVA medical centers to teach homeless veterans to become medical aides and orderlies and a hospice pilot program that would combine the assets of CBO homeless veteran programs with the existing services of nationally accredited hospices and DVA Medical Centers.

- Working with representatives of the AIDS community, state agencies, local groups, and CBOs, the DVA could undertake a number of pilot, collaborative programs for homeless HIV positive veterans. Further, DVA educational staff should be encouraged to coordinate training and educational efforts with organizations providing services to homeless veterans.

- The federal government could initiate a pilot program to provide CBOs with the resources necessary to train homeless veterans in the skills of site testing, abatement methods, and waste disposal procedures.

10. Renew Program Concentration on the Prevention of Homelessness

** Increase allowable funding for homeless prevention activities (including temporary rent or mortgage assistance payments, counseling, assistance with utilities bill, case management, benefits advocacy, landlord and tenant mediation, tenant education, security deposit/1st and last assistance and home-finding programs) under McKinney Act and other programs. Current programs, such as the Federal Emergency Management Agency's (FEMA) Emergency Food and Shelter (EFS) program are doing an excellent job in emergency food and services and prevention. In an HHS Office of the Inspector General survey of eight programs, the average amount of assistance was \$440, less than 15% of the average cost of people going to shelters (\$2,978). This dramatically highlights that prevention is a relatively low cost alternative to the significant costs and incalculable damages incurred to a person or family that experiences homelessness. Prevention activities should be promoted at the federal, state and local level. Programs such as FEMA's EFS, HUD's Emergency Shelter Grants and HHS's Community Service Block Grants funds dedicated to McKinney could allocate more funds to prevention. Additionally, the newly funded Family Support Centers program, which has great potential, should be promoted and evaluated for effectiveness.

** Recognize the greater vulnerability of individuals and families at risk of housing and shelter loss, encourage states through announcements, conferences

and program guidance, to make the first month's rent and rent deposits for the homeless out of Emergency Assistance funds.

** Call for the improvement of eviction notices and procedures. Encourage notification of local social service agencies, publish information sheet on rights and responsibilities, or begin and operate a 24-hour hotline in every state.

** Encourage pre-release programs with all institutional releases. Require that persons being released from hospitals, jails, prisons, residential treatment programs and other institutions have a place of residence and proper support. Assure that they will not immediately fall between the cracks of social and humanitarian services. Strengthen family and community networks that are nonexistent or failing.

11. Empower People who are Homeless to Do What They Can Do for Themselves in order to Avoid Dependence and Promote Inter- and Independence

** Duplicate the statutory requirements currently existing in McKinney housing programs that requires the participation and employment of homeless or formerly homeless persons where appropriate. Replicate model programs that empower persons.

** HUD and FEMA should enforce and continue to monitor compliance with the law with regard to participation and employment of homeless or formerly homeless persons.

Fannie Mae
Working Paper

**Public Shelter Admission Rates in Philadelphia
and New York City
The Implications of Turnover
for Sheltered Population Counts**

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Comment

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Comment

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Comment

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From a forthcoming issue of *Housing Policy Debate*

Office of Housing Research

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Public Shelter Admission Rates in Philadelphia and New York City: The Implications of Turnover for Sheltered Population Counts

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Public Shelter Admission Rates in Philadelphia and New York City The Implications of Turnover for Sheltered Population Counts

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Abstract

Previous estimates of the size and composition of the homeless population in the United States have been based on cross-sectional survey methodologies. National enumeration efforts have yielded point-prevalence estimates ranging from 0.11 to 0.25 percent of the population (Burt & Cohen 1989; HUD 1984). This study reports data from shelter utilization databases in Philadelphia and New York City that record identifiers (i.e., name, date of birth, Social Security number) for all persons admitted to each city's public shelter system, and that therefore provide a unique opportunity to establish unduplicated counts of shelter users annually and over multiple years.

Unduplicated counts of shelter users in Philadelphia and New York City yield an annual homelessness rate for 1992 of 0.96 and 1.17 percent of the population, respectively, and 2.77 percent over three years in Philadelphia (1990-92) and 3.27 percent over five years (1988-92) in New York City. The unduplicated annual counts are three times greater than any rates previously documented for either city by point-prevalence studies. Shelter bed turnover rates for both cities are reported as are average monthly first admission and readmission counts by persons and households over a two-year period. Selected race/ethnicity- and age-adjusted rates are also reported, showing the disproportionate impact of homelessness on minorities and children. The implications of these data for future research and public policy are discussed.

Introduction

For the past decade researchers, policy analysts, advocates for the homeless, and officials from the federal government have been engaged in the daunting challenge of estimating the

size of the homeless population in the United States. Unfortunately, the imprecision in defining and locating a transient, often hidden population has frustrated enumeration efforts.

Divergent estimates have inspired contentious debate as to whether homelessness affects thousands or millions of Americans, and, consequently, as to whether the problem requires emergency remedies or more fundamental changes in the nation's social policies. This paper will demonstrate that the homelessness "numbers debate" has been inappropriately framed from the outset. By using single point in time (point-prevalence) estimates derived from cross-sectional survey methodologies as the primary approach to measuring the size and composition of the population, a method has been applied that does not capture the magnitude of the problem over time, that is likely to overrepresent persons with long periods of homelessness (i.e. people with disabilities, see Dennis, Iachan, Thornberry, et al., 1993), and, by implication, that portrays the population as more stable than dynamic. This paper reviews existing estimates of the homeless population and reports shelter utilization data from New York City and Philadelphia which provide new evidence on the scope of the homelessness problem.

Literature review

Advocates for the homeless have consistently maintained that the number of homeless people in the United States is far greater than that reported by government researchers or other social scientists. The "numbers debate" began in 1982 when members of the Community for Creative Nonviolence (CCNV) in Washington, DC, issued a report (Hombs and Snyder 1982) placing the number of homeless Americans at 2.2 million, or 1 percent of the U.S. population. The estimate was based on an extrapolation of data from a key-informant survey of 14 cities conducted by CCNV that lacked any explicit, let alone uniform, data standards. The CCNV report was advanced primarily for advocacy purposes and led Kondratas to conclude that "this [methodology] was a clear leap of fantasy" (1991, p. 633). It nevertheless established a benchmark that was widely reported in the media and against which subsequent estimates have been measured.

The U.S. Department of Housing and Urban Development (HUD) (1984) provided a counterpoint to the CCNV estimate in 1984 with the first study of homelessness by the federal government. HUD estimated that between 250,000 and 350,000 people (0.11 to 0.15 percent of the U.S. population) were living either in shelters or on the streets in the United States on an average night between December 1983 and January 1984. However, HUD researchers, while using four different estimation techniques, also relied on a key-informant survey methodology. Results were derived from a larger sample of cities ($n = 60$) and applied to the nation's metropolitan and nonmetropolitan populations, but were still based on the estimates of "experts" and shelter providers, not on a systematic count. Consequently, the methodology was the subject of criticism by advocates and by members of the

subcommittee in testimony before the House Subcommittee on Housing and Community Development in 1984 and later by researchers (Appelbaum 1987; Parsons 1986) and the U.S. Government Accounting Office (1988). HUD's and the CCNV's divergent estimates (0.11 to 1.00 percent) served as the frame of reference for the "numbers debate" that ensued.

Results from succeeding enumeration studies by social scientists have been far more convergent, but have nonetheless conflicted with estimates by advocates for the homeless. Rossi, Fisher, and Willis' study (1986) in Chicago was among the more widely cited local surveys, particularly because it included a systematic count of street homeless, as well as a shelter census. Rossi and others (1986) were able to document 2,344 homeless people or a rate of 0.09 percent of the population, although advocates from the Chicago area had maintained that the number was closer to 15,000 (Rossi 1987). Similarly, a one-night survey of the street and shelter population in Boston in 1986 (City of Boston 1986) enumerated 2,863 people as homeless, or a rate of 0.50 percent, although the Massachusetts Coalition for the Homeless had estimated the number to be 15,000. In a summary of other local counts, Burt and Cohen (1989) report a range of estimates from 0.02 percent in rural Ohio to 0.41 percent in Washington, DC, and the 0.50 percent found in Boston. A more recent enumeration by Dennis and colleagues (1993) in the Washington, D.C. metropolitan area found 1.05 percent of the population aged 12 and older were homeless, the highest rate of any such enumerations to date. Nevertheless, despite the wide variation in local estimates, reported homelessness rates have consistently been closer to HUD's estimate than to CCNV's estimate (Kondratas 1991).

Although there is agreement that the homeless or "sheltered" population on a given night more than doubled in the 1980s (Burt 1992; Freeman and Hall 1987; HUD 1989; Kondratas 1991), two more recent national studies have again confirmed that while there is significant local variation in the rate of homelessness, the national numbers do not even approximate advocates' estimates of 2 million to 3 million persons. One of these studies (Burt and Cohen 1989) was based on a probability sample of shelter providers and people using shelters and soup kitchens in U.S. cities of 100,000 population or more. The authors estimate that 229,000 people, or 0.37 percent of the population in these 178 cities, used homeless services in March 1987. Projecting to the United States as a whole, adjusting for urban and nonurban areas and assuming that for every 100 homeless service users there were 50 homeless nonservice users, Burt and Cohen report a national estimate of 567,000 to 600,000 homeless, or a national rate of 0.235-0.249 percent. This estimate has since been accepted by federal officials for planning purposes, although it is regarded by Kondratas (1991) as an overestimate.

As part of the 1990 census, the Census Bureau conducted a count of homelessness in the nation. The Census Bureau reported (U.S. Department of Commerce 1991a) that in the 200 largest cities approximately 230,000 people were identified as living in shelters, on the streets, or in public places not intended for habitation. In an analysis of results for the fifty

largest cities, Barrett, Anolik & Abramson (1992) identified sheltered population rates below 0.20 percent for 35 cities, and between 0.20-0.40 percent for 11 cities. Only four cities had sheltered population rates exceeding 0.40 percent: San Francisco (0.57%), Washington, DC, (0.78%), Seattle (0.44%) and Atlanta (0.62%). The Census Bureau estimates were denounced by advocates and social scientists, some of whom conducted evaluations of the enumeration by surveying homeless people to ascertain if they had been interviewed by census takers and by placing confederates in street locations to see if they would be counted (see National Coalition for the Homeless [1991] for a summary). The evaluations revealed that the Census Bureau's effort, while the largest and most ambitious of its kind, failed to count many of the street homeless and even missed entire shelters. However, as Kondratas (1991) has remarked, "even if the count were increased by 100 percent, that would mean 460,000 homeless persons; a 200 percent increase would result in a figure of 690,000. . . . The bottom line is that the range of legitimate estimates of the homeless population is 230,000 to 600,000." (pp. 640-41)

The convergence of enumerations in the 230,000 range by Burt and Cohen (1989; largest 178 cities) and the Census Bureau (1991a; largest 200 cities) led Kondratas (1991) to conclude that advocates overstated the numbers to support a structuralist interpretation of homelessness and that, in reality, the problem afflicts a small number of troubled individuals, not the new homeless of ordinary working Americans described by advocates. According to Kondratas (1991), advocates' inflated estimates are partly to blame for a misguided federal homelessness policy:

The concept 'millions of homeless' was inconsistent with a relatively small proportion of extremely poor persons beset with multiple ongoing problems. If millions were homeless, it was plausible that unemployment and social program cuts were driving ordinary working Americans to the streets. . . . In other words, the exaggerated number had a strong bearing on this misperception of the causes of homelessness and characteristics of the homeless, which in turn led to ill-conceived policy. (p. 634)

Kondratas goes on to declare that "[f]or those who understand numbers, the so-called numbers debate has long been over." (p. 643)

The evidence appears to suggest that a much smaller number of people is homeless at a given point in time than has been claimed by advocates. Cross-sectional methods for measuring homelessness, however, have been applied primarily for research, not advocacy purposes, and have been the preferred approach to date because they avoid the duplication problems inherent in longer time frames and because of their usefulness for meeting immediate planning needs (i.e. planning shelter capacity). Unfortunately, cross sectional methodologies also have limitations. They do not capture the magnitude of the problem over time, and they are likely to overrepresent people with long periods of homelessness, such as those with

disabilities (see Dennis et al., 1993), relative to longitudinal research designs. Consequently, some people may use the results of cross sectional research to conclude erroneously that the population over time is comprised of more disabled and chronically homeless persons than is actually the case. Indeed, Kondratas' resolve that the numbers debate is over and that unemployment and social program cuts are not causal factors in homelessness appears to derive from a belief that most homeless people are persistently homeless and beset with multiple ongoing problems. A number of empirical findings suggest that those assumptions deserve more careful examination.

Demographic surveys of the homeless have consistently shown that, in addition to being younger and including families with children, the recent homeless report having been homeless for a far shorter duration than their skid row counterparts of the 1950s and 1960s. For example, while Blumberg, Shipley, and Shandler (1973) report that 78 percent of their skid row sample from Philadelphia in 1960 had been skid row residents for more than 1 year and 33 percent for more than 10 years, a survey of Philadelphia's homeless in 1988 (Ryan et al. 1989) found that 75 percent had been homeless for less than 1 year, and 50 percent for less than six months. A study in Phoenix (Brown et al. 1983) found 60 percent as being homeless for less than six months. In Ohio, Roth and coauthors (1985) reported 49 percent as being homeless for less than 60 days. Similar findings in New York (Hoffman et al. 1982) and Chicago (Rossi et al. 1986), as well as a meta-analysis covering 14 studies by Shlay and Rossi (1992), confirm that a majority of the recent homeless report having been homeless for relatively brief periods (less than six months).

Researchers have applied estimation techniques to length of time homeless data to project the annual prevalence of homelessness (that is, the number or proportion of persons experiencing homelessness over the course of a year) by varying assumptions regarding turnover. Rossi's (1989) method yielded annual prevalence estimates 2.3 to 3.4 times greater than point prevalence estimates, and Vernez et al. (1988) estimate annual turnover rates in California of 5.8, 3.4 and 2.3 in Orange, Alameda and Yolo counties respectively. Unfortunately, because these data are derived from cross sections of the population, there is no way to estimate accurately actual rates of turnover, particularly since such rates would be influenced by the proportion of shelter users with short episodes of homelessness. Nevertheless, these data suggest that turnover among the homeless population is significant and that many more people are likely to be homeless over time than at a single point in time.

Longitudinal research would provide more conclusive evidence of the dynamic nature of homelessness, although there is little published longitudinal research in this area. The one published study to date by Sosin, Piliavin, and Westerfelt (1990) (two additional longitudinal studies are in progress, see Burnam, Koegel & Duan, 1990; Robertson, Piliavin & Westerfelt, 1990) was based on a two-wave, two-sample survey of homeless adults in Minneapolis. In a preliminary analysis of their data, Sosin et al. found that homelessness is much more episodic than chronic, and that neither previous episodes of homelessness nor an

episode of long duration reduce one's chance of making a stable exit from homelessness. These findings led the authors to conclude that "attempts to enumerate the homeless population through counts at any point in time clearly underestimate the intermittently homeless population." (p. 172) This conclusion was consistent with their critique of cross-sectional research that "tend[s] to misrepresent the length of time individuals are in one status; and they tend to overestimate the proportion of individuals who have long stays." (p. 158). The results also led the authors to question the efficacy of the current emphasis on temporary and transitional approaches to reversing homelessness, arguing instead that "policy strategies . . . might focus attention on moving individuals from temporary dwellings to *permanent* ones, or . . . to turn temporary exits [from homelessness] into permanent ones" (emphasis theirs, p. 172).

The final and perhaps most interesting evidence of turnover in the homeless population comes from a rather unexpected source: telephone surveys of the general population assessing their attitudes toward homelessness. Three such surveys have been conducted, and in each survey respondents were asked whether they had ever been homeless. Quite surprisingly, researchers have found convergent and significantly high estimates of prior homelessness among the general population. Toro and McDonell (1992) report that, among their sample of persons from Buffalo, NY, selected by a random-digit dialing method, 4.2 percent indicated having been homeless in the past. Similarly, Novacek and others (1991) found that 5 percent of a random sample of people from the Tulsa, OK, telephone directory reported a prior experience of homelessness. A national study by Link, Susser, Stueve, et al. (1993) polled 1,507 people and found that 12 percent of the respondents reported having been homeless. Because these data are significantly qualified by respondents' interpretation of the term "homeless," Link and colleagues specifically asked whether the respondents had been homeless while living doubled up with friends or relatives, whether they had stayed in a shelter or whether they had slept in public spaces. Researchers found that if one excludes persons who have doubled up with friends or relatives and includes only those who have stayed in a shelter or slept in public spaces (the "literal" homeless), then more than half, or 7 percent of the total, had a prior homelessness episode. The authors report that 3.2 percent of the respondents had suffered literal homelessness in the past five years.

Compared with point-prevalence surveys, these prevalence estimates are remarkably high, particularly when one considers that only people with telephones are interviewed for such studies. Assuming that most of the prior homelessness episodes occurred after 1980, when the nation's shelter capacity experienced its largest growth (Burt 1992; HUD 1989), and when combined with data on the reported "length of time homeless" and from the longitudinal research of Sosin and others (1990), the evidence suggests that point-prevalence studies may have captured only a fraction of the population that has confronted homelessness in the past decade.

The research question

Would data systems that register every person who stays in a shelter over a specified period and within a defined geographic area help to reconcile the 4 to 7 percent prior homelessness rates from telephone surveys of the general population with the 0.1 to 0.4 percent point-prevalence estimates from enumeration studies? The following study will answer that question by reporting shelter utilization data from Philadelphia and New York City, where both cities register every person who enters the public shelter system is registered.

Data and methods

The shelter systems and databases

Both Philadelphia and New York City have standardized admissions procedures for persons requesting public shelter. Public shelters are defined as emergency housing facilities for the homeless that are either owned, administered, or contracted through city government, and do not include transitional housing facilities. Philadelphia's public shelter system had a census of 2,490 people (including children) at the end of fiscal year 1992.¹ By contacting not-for-profit shelter providers listed with local charitable agencies, an additional 451 private beds, or 15.4 percent of the total ($n = 2,941$), were identified as outside Philadelphia's public shelter system and thus were "untracked" by the city's shelter registry system (see table 1). In New York City, the average daily census of the public shelter system in the 1992 fiscal year was 23,752 people (including children). A match of the New York City public shelters with those facilities listed as homeless shelters by the New York City Department of City Planning (1992) yielded a count of 5,179 private beds, or 17.9 percent of the total ($N = 28,931$), outside the New York City public shelter system. Thus, the reported data for both cities will underestimate the actual number of shelter users because client movement in these private facilities is not included, although the comparable proportion of untracked beds in both cities is noteworthy.

When single adults enter the New York City Adult Shelter System, they go through an intake process that establishes the client's file in the Shelter Care Information Management System (SCIMS); at that time a system identification number is assigned to the new client. This is followed by an assessment of their needs to determine if the client is better suited to a specialized or general shelter. Intake and assessment take place at designated Assessment Shelters. In the event that a client makes initial contact with a non-Assessment Shelter, the client is provided with a subway token, directions, and a referral to an Assessment Shelter.

¹ See footnotes to table 1 for explanation of census.

During the intake process, clients are asked their name, Social Security number, date of birth, citizenship, and veteran status to open their SCIMS record. If clients decline or are unable to provide any of the information, they are logged in as John or Jane Doe. In addition to the aforementioned intake data, data are collected on presenting medical and psychiatric conditions, previous residence, marital and family status, status of children, and reasons for termination or suspension of services.

Table 1. Average Daily Census in Philadelphia and New York City Shelters, 1992

Type of Shelter	Philadelphia ^a	New York City
Public (tracked) ^b	2,490 (84.6%)	23,752 (82.1%)
Private (untracked) ^c	451 (15.4%)	5,179 (17.9%)
Total	2,941 (100%)	28,931 (100%)

^a The census for the Philadelphia shelter system at the end of the 1992 fiscal year (6/30/92) is used as a proxy for Philadelphia's average daily census.

^b The public shelter census is equivalent to the number of people using the shelter system, because each city contracts for occupied beds only.

^c The average daily census of private, untracked facilities is a single-point-in-time measure of bed capacity.

Since its inception in 1986, SCIMS data entry has been done by social service staff (or designated data entry staff) in the shelters. During client interviews information is manually recorded onto the appropriate forms for later data entry. It has continued to operate as designed, with only minor changes. Since April 1989 new client entries are generally done only at Assessment Shelters.² Record updates are done at the clients' shelter location. Lodging history is preserved and includes admission and authorized discharge dates. For the period encompassed by this study, if clients continued to require service at the end of one authorization period, a new authorization period was added to the clients' lodging history. In the event that a client leaves prior to the end of the authorization period, the "end date" reflects the date the client left. Readmission and subsequent discharge dates were thus similarly maintained.

The New York City Family Shelter System database, the Homeless Emergency Referral System (HOMES), was designed primarily as a reservation system. Its secondary function is to provide information for case management. Since its inception data entry for HOMES has been done through a centralized data entry unit. All information is transmitted by telephone or fax to this unit where entries are made. A centralized data entry unit has provided a higher level of quality control than is available for SCIMS. Family clients and household

²A few exceptions exist, such as clients who are referred to the system by a hospital having been preidentified as requiring specialized services (wheelchair accessibility); these clients are entered into a shelter by administrative staff.

members must report identifiers (name, date of birth, Social Security number, and citizenship) and other demographic information (race, marital status, and such). Additional information tracked and monitored in HOMES includes pregnancy and newborn status, referral sources, reasons for homelessness, last known address, Income Support (Welfare) status, and types of permanent housing placements. The database tracks entry and exit from the system through the recording of admission and discharge dates and subsequent re-entry and discharge dates.

Homeless families enter the New York shelter system either through Income Support Centers (IS) or Emergency Assistance Units (EAUs). Unlike the Adult Shelter System, families must prove their legal or biological relationship to each other. To be considered a family, cohabiting adults must either be legally married or be on the same IS grant; either a marriage certificate or proof of a shared IS grant must be provided to the EAU or IS staff. In the case of children, parents must provide documentation that the children are their own. Information can be compared with entries in the New York State public assistance database (WMS)³ if the family is recorded in that system. If adults are not legally married and no children or pregnancy is involved, they are referred to the Adult Shelter System. Every woman who states that she is pregnant is given a urine test to substantiate the pregnancy prior to placement. Only families or single pregnant women are allowed in the family shelter system.

Philadelphia has a centrally administered shelter system that includes a single portal of entry for all adults and families requesting shelter between the hours of 7:30 a.m. and 4:30 p.m. Both families and single adults seeking shelter during these hours must go to the Adult Services office in downtown Philadelphia, which coordinates shelter placements. To be seen by caseworkers at Adult Services, clients are required to present two forms of identification, which together must include a Social Security number and a Philadelphia street address. If appropriate identification is presented, clients are assigned to a caseworker for an intake interview. If clients lack verification of a Social Security number, they are directed to a nearby Social Security Administration office to obtain a temporary identification card. If they lack a Philadelphia address or have been in Philadelphia for less than six weeks, they are referred to the Traveler's Aid Society.

Intake interviews are designed to assess clients' needs, record client information, and, whenever possible, to assist individuals in avoiding shelter placement. At the time of intake caseworkers directly record client information in the Client Information System (CIS). This information includes identifiers (name, date of birth, Social Security number, and Medicaid number), initial intake date, demographics, marital and family status, reason(s) for homelessness, last two prior addresses, characteristics of prior housing arrangement,

³A state-owned and state-maintained database, Welfare Management System (WMS), is used by the IS Program. The database maintains records on all persons applying for and receiving public assistance in New York State.

emergency contact persons, names and ages of accompanying children, medical problems, reasons for restricted access to shelter (if any), case close date, and subsequent and current intake dates. A maximum of two readmission dates can be recorded in Philadelphia's shelter system, with the most recent or current readmission overwriting the last readmission when a client has had more than two readmissions.

If a shelter assignment is deemed necessary at intake, case workers call shelter facilities to locate available beds. In general, two types of beds exist in the Philadelphia shelter system: short term and long term. A short-term bed is available and renewable on a day-by-day basis, while a long-term bed is assigned and renewed on a monthly basis. Depending on the assessed needs of the client and on what is available, matches between clients and facilities are attempted (Culhane 1993). However, because the availability of long-term beds is typically very limited, most clients must cycle through a series of short-term beds before a long-term placement becomes available. Short-term and long-term beds are reimbursed on the same per diem basis. Clients' status can be determined by the length of time indicated on their Purchase of Services (POS) form obtained at intake.

Two shelters, one for single men and one for single women and families, are designated as the "after-hours" intake sites and offer both initial intake and short-term shelter placements. Both sites collect identifying information from clients and require identification for admission. The data are then entered at the centralized intake site (Adults Services) at a later date. After-hours clients must go through the more thorough intake process with caseworkers at Adult Services to obtain a long-term shelter placement. Families and single women are not admitted to a short-term bed on the next night if they have not gone through the intake process at Adult Services during the day. Single men, however, may access short-term beds through the after-hours intake site indefinitely, thus avoiding an intake interview at Adult Services.

Because the present study was designed to calculate rates of admission and readmission to the shelter system and not to analyze patterns of stay, discharge or case closure dates were not analyzed as part of this analysis. Although it is possible to derive discharge dates that accurately indicate the day a client left New York City shelters, in Philadelphia case "closure" dates are recorded either at the end of clients' authorization period (they may have left prior to that date) or after 45 days without follow-up contact by a case manager. To correct for this and the limited readmission fields in the Philadelphia case registry, a separate shelter tracking database was created in Philadelphia on July 1, 1991. Those data have not been analyzed for the present study, although the investigators are planning future longitudinal data analyses to compare stay patterns in New York and Philadelphia.

Unduplication and aggregation procedures

Because the databases were designed to create one record per client, the databases theoretically should not include duplicate cases. Identification requirements for families and singles in the Philadelphia shelter system and for families in the New York City shelter system provide some assurances that duplication is minimized. However, given the potential for data entry errors and the use of nicknames, an unduplication procedure was undertaken at both sites. Unfortunately, the use of pseudonyms or false identification may not be detected by these methods and serves as a qualification to the study findings.

In Philadelphia automated sorting was employed to identify matches by last name and first initial of the first name. All matches were then searched manually by first name, birth date, and Social Security number. Any match of last name with Social Security number (seven of nine numbers) or with first name (variants included) *and* birth date (month and year) was noted as a duplicate case. An overall duplication rate of 1.2 percent was found, most of which appeared to result from keystroke errors in the entry of Social Security numbers. For the purposes of the present study, only the record with the earliest initial intake date was retained among the duplicate records.

In New York both the Family and Single Adult Shelter systems have identified duplicate entries through Social Security number, name, and birth date matches.⁴ The Family Shelter System cross checks all entries at the time of data entry against Social Security numbers, the first five letters of the last name plus the first four letters of the first name, and the year and month of birth. Possible duplicate entries appear on the monitor and are checked prior to continuing the intake process. Additionally, all records are verified for duplication each month, and a monthly overlay of Social Security numbers from the WMS database identifies any children or adults who are included in the database under a different name. Because the Single Adults Shelter System, unlike the Family Shelter System, requires no personal identification for admission, a greater problem existed with multiple records because of the use of aliases and misspellings. A built-in safeguard prevents any two entries from being made with the same Social Security number. Periodic matches produce suspect lists of duplicates for a final manual determination as to whether the records are duplicates. Suspected records using aliases are matched by all existing personal identification fields including mother's maiden name.

The Philadelphia case registry was initiated on December 21, 1989, for singles and families. The New York databases were initiated in three stages. First on line were women on December 12, 1985, followed by men on September 8, 1986, and, finally, the Family Shelter System on April 1, 1987. However, the Family System, unlike the Adult System, not only

⁴Either an eight or nine digit Social Security number match or a match with the first five letters of the last name, the first four letters of the first name, and the birth month and year identify duplications.

included known origination dates for the system but back-entered lodging information for all families active in the system when the database went on line.

For the purposes of the present study, two years of admissions data were selected starting June 1, 1990, and ending May 31, 1992. To make the data on first admissions roughly comparable between the two sites, the New York databases were reset to a January 1, 1990, start date (by disregarding any admission or discharge activity prior to that date). First admission counts by month were created from both databases by aggregating client records by initial intake date over the selected time period. Readmission counts by month were similarly created by aggregating client records by re-entry dates. In New York discrete episodes of shelter use were obtained by consolidating individual facility use into stays. The end of a stay for the purposes of this study is defined by at least one day out of the shelter system prior to the start of a subsequent stay; one stay may include the use of multiple shelter facilities. In Philadelphia an episode of shelter use ends (case closure) only when the client has been out of the shelter system for 45 days, and only a maximum of two readmissions can be recorded per client. Both of these factors are likely to result in the Philadelphia database showing a lower number of readmissions than New York.

In addition to two years of admission and readmission counts by month, an unduplicated annual count for the second year of the study period (June 1, 1991 to May 31, 1992) was calculated for Philadelphia and yearly unduplicated counts by calendar year (from 1988-92) were calculated for New York City. The unduplicated annual count in Philadelphia was determined by adding all first admissions in the second year of the study period (Year II) to the number of people in the database having both a first admission prior to Year II and any readmission in Year II. (For this purpose, the presence of a readmission in Year II in the Philadelphia data was accurately determined because the Philadelphia data were current only to the end of the selected study period, that is, before they could be overwritten by later readmissions.) The unduplicated count for New York City was determined by adding all persons with any shelter service record for the 1992 calendar year. The family person count by month in New York City was derived by multiplying the number of families each month by the average family size each month.

The likelihood of a person with a first admission in Year I being readmitted in Year II was also calculated for both cities. Annual rates of turnover were calculated by dividing the unduplicated client counts in Year II (or 1992 for New York City) by the average daily census (New York) or the end-of-year bed capacity (Philadelphia) of the systems. Finally, unduplicated counts over three and five years of the New York City data and three years of the Philadelphia data were calculated, and select race/ethnicity- and age-adjusted rates were determined by dividing unduplicated counts by population data from the 1990 census (U.S. Department of Commerce 1991b).

One final caveat should be noted regarding the data presented. The Philadelphia CIS does not reliably distinguish between those persons receiving shelter and those requesting but not receiving shelter. In part, this is because the more recently established shelter tracking system was intended to track shelter assignment and usage. Therefore, while the Philadelphia data accurately reflect the number of people requesting shelter, approximately 5 percent of those requesting shelter every month do not receive it, but are included in this study's results. The New York data does reliably distinguish between those receiving and not receiving shelter, and only those receiving shelter are included in the data reported here.

Results

Unduplicated counts and population-adjusted rates

As shown in table 2, nearly 1 percent of Philadelphia's population and more than 1 percent of New York City's population used the public shelter system in 1992. Nearly 3 percent (2.77) of Philadelphia's population requested services from that city's shelter system from 1990-1992, with a corresponding 2.21 percent receiving shelter in New York over the same period. Over five years 3.27 percent of New York City's population spent time in a public shelter. Even though data prior to 1988 are incomplete, 4.37 percent of New York City's population was registered in a public shelter since the inception of the databases. Given that these data exclude private, untracked facilities (15 percent of the bed total in Philadelphia and 18 percent in New York), these data presumably reflect an undercount of shelter users, although the data remain qualified by clients' potential use of pseudonyms and false identification.

Although both cities have previously reported point-prevalence rates for people in shelters (between 0.22 and 0.40 percent, see table 2) that are within the point-prevalence range reported nationally, both cities have annual-prevalence rates exceeding any previously published estimate. Roughly three to four times as many people were registered as shelter users in Philadelphia and New York City over the course of a year than were enumerated at a single point in time for each city by two recent studies (Burt 1992; U.S. Department of Commerce 1991a).

Table 2. Unduplicated Shelter Population Counts in Philadelphia and New York City, by Varying Sources and Time Frames, in Persons

	1989 ^a	1990 ^b	1992 ^{c,d}	1990 92 ^c	1988 92 ^c
City	1 day	1 day	1 year	3 years	5 years
Philadelphia					
Raw	5,300	3,416	15,241	43,965	x
Percent	0.323	0.215	0.962	2.772	x
New York City					
Raw	29,502	23,383	85,916	161,945	239,425
Percent	0.403	0.319	1.173	2.212	3.270

^aMartha Burt (1992), public and private shelters.^bU.S. Department of Commerce, Census Bureau (1991a), public and private shelters.^cPresent authors, rates use 1990 population.^dPhiladelphia data are for 6/1/91 - 5/31/92, and include all persons requesting shelter. New York City data are for calendar year 1992, and include only persons sheltered.

Table 3 presents three-year and five-year data adjusted for selected race/ethnicity and age groups (five years of data are not yet available for Philadelphia). The data demonstrate both the disproportionate impact of homelessness on minorities, particularly African Americans, and children, as well as the comparability of risk for homelessness by the subgroups in the two cities. In both cities, African Americans are more than twice as likely to become homeless than the general population. In a three year period, African Americans are 15 times more likely than whites in Philadelphia and 20 times more likely than whites in New York City to become homeless. In both cities about 6 percent of the African-American population has been registered in the shelter system in the past three years, reaching almost 8 percent in New York City over five years. Children are also more likely to become homeless than the general population. Indeed, African-American children represent the most vulnerable of the subpopulations listed here; nearly 8 percent of both cities' African-American children have used the public shelter system (over three years in Philadelphia and

Table 3. Unduplicated, Population-Adjusted Shelter Utilization Rates in Philadelphia and New York City

	Philadelphia ^a 3 years (1990-92), raw	Philadelphia 3 years (1990-92), pop. adjusted	New York City ^{a,b} 3 years (1990-92), raw	New York City 3 years (1990-92), pop. adjusted	New York City ^{a,b} 5 years (1988-92), raw	New York City 5 years (1988-92), pop. adjusted
Total persons	43,965	2.77%	161,945	2.21%	239,425	3.27%
Black (not of Hispanic origin)	38,557	6.18%	103,995	5.63%	147,469	7.98%
White (not of Hispanic origin)	3,473	0.42%	8,846	0.28%	14,663	0.46%
Hispanic	1,495	1.68%	44,001	2.47%	63,589	3.57%
Other	440	0.94%	5,102	0.96%	13,702	2.59%
Total children (<18)	15,053	3.97%	55,114	3.27%	77,782	4.61%
Black (not of Hispanic origin)	14,270	7.88%	34,887	5.76%	47,353	7.82%
White (not of Hispanic origin)	467	0.30%	1,274	0.26%	2,086	0.43%
Hispanic	256	0.77%	17,454	3.20%	24,399	4.48%
Other	60	0.57%	1,499	3.28%	3,944	8.64%
Poverty ^c						
Persons	43,965	14.00%	161,945	11.69%	239,425	17.29%
Families	6,402	10.50%	31,315	10.97%	44,194	15.48%
Children	15,053	13.60%	55,114	11.24%	77,782	15.86%

Note: Percentages may not total because of rounding.

^aThe number of children by race/ethnicity was interpolated, distributing the total number of children across racial/ethnic groups according to the distribution of family households by race/ethnicity (assumes family sizes are equal across groups). Philadelphia includes all persons requesting shelter and New York City includes only persons receiving shelter.

^bThe number of homeless children in New York City was calculated by multiplying the number of families by race by the average family size (1.760), derived from a random sample of daily census reports from 1990-1992.

^cPoverty population figures are based on 1990 data (U.S. Department of Commerce 1991a). The poverty rate is based on a single-point-in-time measure and does not capture the number of people experiencing poverty longitudinally; therefore, the proportion reported as experiencing homelessness over time will be inflated.

five years in New York). Poverty-adjusted rates were also calculated, although it should be noted that the poverty rate is a single-point-in-time measure and will therefore overestimate the proportion of poor who become homeless. Thus, assuming stability in the poverty population, between 11 and 14 percent of the poor in both cities have used the shelters in the past three years, with comparable proportions among poor families and poor children. The similarity in rates reported for both cities, across demographic groups, is noteworthy.

Table 4 compares the distribution of client demographic characteristics at a single point in time and over three years, showing the impact of turnover on the proportionate representation of subpopulations. Of particular note is the reduction in the proportion of sheltered households in families when viewed over time, suggesting that the comparatively higher turnover among single adults leads to their lower proportionate representation at a given point in time. Likewise the proportion of clients who are children in both cities decreases to approximately one-third of the total when viewed over three years, as families turn over at a lower rate than single adults.

Admission patterns

Although the above data are suggestive of the significant turnover in the shelter system, those patterns can be more clearly shown by examining monthly admissions to shelters. Table 5 shows the average number of persons admitted monthly to the New York City and Philadelphia public shelter systems over the two-year study period, and the average daily census in the second year of the study period. As can be seen by comparing the total admissions with total average daily census, in both cities approximately half the beds turn over, on average, every month. In Philadelphia nearly half the beds are emptied and filled again every month with people *new* to the shelter system.

Because of differences between the two sites in the definition of readmission, readmission counts are not comparable across cities. New York City's data reveal a much higher proportion of the total admissions considered as readmissions because, for the purposes of this study, an episode ends with one day out of the shelter system and another episode may begin the next day. For this reason, the New York City data are illustrative of how frequently people leave and re-enter the shelter system, with readmissions accounting for three times as many of the total admissions as first admissions. Philadelphia, on the other hand, while potentially experiencing the same phenomenon, shows a much lower monthly average readmission count. This lower count was due to Philadelphia's method of counting readmissions only after 45 consecutive days out of the shelter system and because Philadelphia's data only codes for a maximum of two readmissions. Provisionally, the New York City figures could be considered a better estimate of the administrative burden of turnover to providers and clients, given its ability to better capture the frequency of exit and

Table 4. Characteristics of Shelter Users, Single Point in Time Versus Three-Year Counts, Philadelphia and New York City

Household Type (%)	Philadelphia ^a		New York City ^b	
	Point in Time	Three Years	Point in Time	Three Years
Singles	.66	.77	.54	.67
Families	.34	.23	.46	.33
Race of Household Head (%)				
Black	.91	.88	.65	.65
White	.06	.08	.05	.08
Hispanic	.03	.03	.29	.24
Other	.00	.01	.01	.03
Children (% of total)	.46	.35	.41	.34
Single Adults (%)				
Male	.69	.77	.83	.82
Female	.31	.23	.17	.18

^a Philadelphia's single point in time was December 21, 1993. It includes all active cases; thus, people who may have left shelter but have not been out for the forty-five day cutoff period.

^b New York City's point in time was January 9, 1993.

Table 5. Average Monthly Shelter Admissions for Philadelphia and New York City, in Persons, June 1990 to May 1992

	<u>First Admissions</u>		<u>Readmissions</u>		<u>Total Admissions</u>		<u>Daily Census</u>
	Mean	(SD)	Mean	(SD)	Mean	(SD)	(1992)
Philadelphia							
Singles	592	(90)	279	(55)	871	(110)	1,249
Families	572	(109)	218	(83)	790	(134)	1,241
Total	1,164	(172)	497	(128)	1,661	(214)	2,490
New York City							
Singles	1,401	(242)	5,686	(369)	7,086	(500)	7,286
Families	1,796	(493)	3,719	(612)	5,515	(496)	16,466
Total	3,197	(690)	9,405	(666)	12,601	(698)	23,752

re-entry. The Philadelphia figures could be considered, however, a more accurate measure of the number of episodes of homelessness served by providers, with one day out of the system not considered a true exit from homelessness.

Up until now data have been reported in persons, not household units. However, because people presenting to the shelter system are typically treated as "households," for policy planning and management purposes it is often more useful to examine shelter utilization counts by households. For example, caseloads for intake workers and social workers are more likely to be determined by household rather than person units. Table 6 shows the differences that result when the two-year total admission counts are calculated by persons and households in Philadelphia and New York (recall that "total admissions" is an additive of first admission and readmissions, and therefore is not an unduplicated count). The resulting difference is primarily a consequence of children being included as members of family households but not counted as separate persons, which reveals that, in both sites, approximately one-third of the total admissions in persons are accounted for by children and other family members. (Although, again, the differences in the presentation of the readmission data makes the total admission rates for Philadelphia and New York noncomparable.) In Philadelphia a slight reduction occurs in the singles' category because married couples without children were previously coded as two single adult households in the database, while in New York City they were treated as members of one family household.

Table 6. Total Admissions to Shelter in Philadelphia and New York City, in Persons and Households, June 1990 to May 1992

City	Persons	Households
Philadelphia		
Singles	20,910	20,130
Families	18,969	5,701
Total	39,879	25,831
New York City		
Singles	170,074	170,074
Families	132,358	42,572
Total	302,432	212,646

In figures 1 and 2 household units have been used to show the trend of monthly admissions and readmissions for families and single adult households for the selected two-year study period. In general, and disregarding any potential effects of policy changes on admission rates, the trend for first admissions would be predicted to decline and the trend for readmissions to increase over time as the persons at risk for homelessness experience their first episode and are counted as readmissions on subsequent episodes. However, if the pool of potential homeless households replenishes or even increases over time, then this downward trend among first admissions would be attenuated, and possibly reversed.

Time series regression analyses were conducted on first admission and readmission rates for singles and families in both cities over the two-year study period, adjusting for seasonal variation. Results reveal that first admission rates for families in both cities show a significant downward trend (Philadelphia, adjusted $R^2 = .23$, $F = 7.87$, $p < .02$, $Beta = -.513$; New York, adjusted $R^2 = .46$, $F = 20.66$, $p < .001$, $Beta = -.695$). Thus, the pool of families experiencing a first-time shelter stay in Philadelphia and New York City has been declining. For singles, however, only New York City had a significant downward trend of first admissions (adjusted $R^2 = .70$, $F = 54.01$, $p < .0001$, $Beta = -.843$), suggesting that either Philadelphia's pool of single adults experiencing a first shelter admission has been replenishing over time or that there simply is no discernible trend among single admissions in Philadelphia. Results for the analyses of readmission rates similarly reveal the predicted increasing trend for families in both cities (Philadelphia, adjusted $R^2 = .57$, $F = 31.63$, $p < .0001$, $Beta = .768$; New York City, adjusted $R^2 = .66$, $F = 45.58$, $p < .0001$, $Beta = .821$). Because of definitional differences the trends for family readmissions are not comparable across the two cities; however, both demonstrate the predicted increasing

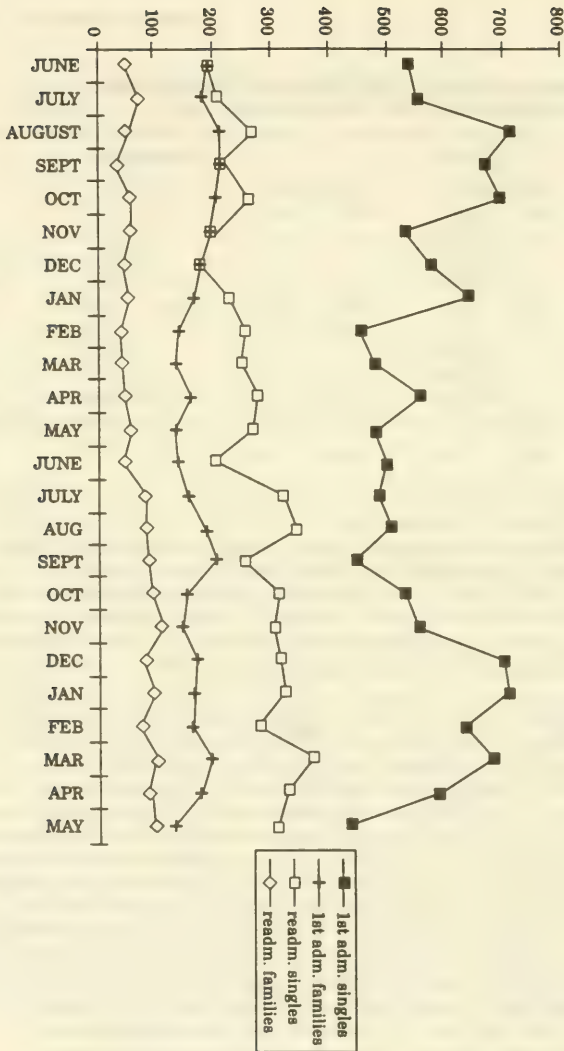
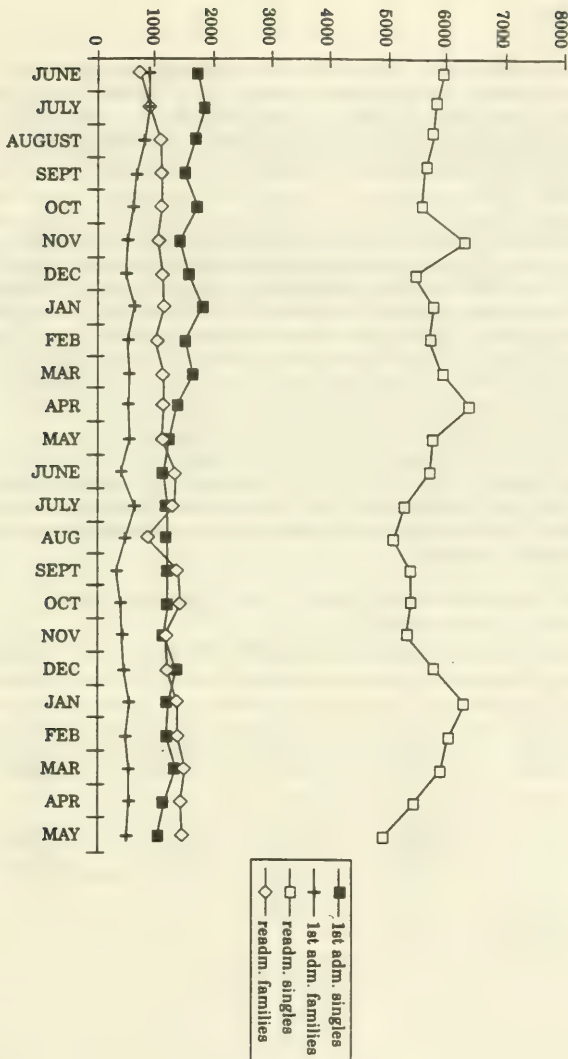


Figure 1. First Admission and Readmission Counts for Singles and Families (in Households) for Philadelphia, June 1890 - May 1892

Figure 2. First Admission and Readmission Counts for Singles and Families (in Households) for New York City,
June 1990 — May 1992



proportion of admissions accounted for by readmissions over time as families with first admissions reappear in the system. For single adults, however, only Philadelphia had the predicted increasing rate of readmissions (adjusted $R^2 = .60$, $F = 35.02$, $p < .0001$, $Beta = .784$), while in New York single adults with previous shelter experience had a nonsignificant decreasing rate of readmissions over the study period (adjusted $R^2 = .03$, $F = 1.63$, $p < .2145$, $Beta = -.263$).

Because New York City has five complete years of admission data, unduplicated first admission and system user counts by year for the past five years were also computed and are shown in table 7. The data on first admissions show much higher counts for 1988 relative to the other years because the database was reset to a January 1, 1988, start date. Thus, people whose first admission was prior to 1988 and who have a subsequent readmission in 1988 are counted in 1988 as a first admission, inflating the number of first admissions. While first admissions appear relatively stable for families across the remaining four years (aggregated by year rather than month), the first admissions for single adults again show a significant downward trend. The unduplicated count of systems users annually similarly shows a substantial decline in the number of homeless singles who have used the New York City shelter system, dropping 31 percent from 1988 to 1992. In contrast, the unduplicated annual number of families has been steadily rising across the five-year period, increasing 32 percent from 1988 to 1992. Because families include more than one person, the overall number of system users annually has been increasing.

Table 7. Unduplicated First Admissions and System Users in New York City, by Calendar Year, in Households

	1988	1989	1990	1991	1992
First Admissions^a					
Singles	42,658	20,989	14,326	12,862	11,337
Families	13,827	7,106	7,925	7,834	7,830
Total Households	56,485	28,095	22,251	20,696	19,167
System Users^b					
Singles	42,658	42,822	35,334	32,508	29,259
Families	13,827	14,144	14,957	15,205	18,220
Total Households	56,485	56,966	50,291	47,713	47,479

^aRepresents clients' first stay in the shelter system. Shelter stay history is traced as if no client entered the system prior to 1/1/88. Only the first stay during the time period is counted.

^bRepresents annual users of shelter system. Clients may be represented in multiple years.

Annual turnover and readmission rates

If annual turnover is defined as the unduplicated count of persons served in a year per average daily census in that year, Philadelphia had a 6.12 annual rate of turnover in 1992 (15,241/2,490), while New York City had a 3.62 annual rate of turnover (85,916/23,752).⁵ Thus, more than six people in Philadelphia and nearly four people in New York City used the shelter system for every person in shelter on a given night of that year. Three-year turnover rates could be similarly calculated, dividing the unduplicated three-year count by the average daily census from 1992. In Philadelphia, the three-year turnover rate is 17.66, and in New York City the three-year turnover rate is 6.82.

While shelter stay patterns were not the focus of study here, the likelihood of a household experiencing an admission in both years of the data was examined as preliminary to more extensive longitudinal analyses of stay patterns by the authors. A readmission rate was therefore calculated for households with a first admission in Year I (June 1, 1990 - May 31, 1991) in the two-year study period and a subsequent readmission in Year II (June 1, 1991 - May 31, 1992). In Philadelphia 11.6 percent of the households first admitted in year one had another admission in Year II, which compares with the overall readmission rate (readmission could occur within the same year) of 27 percent. In the aggregate (without adjusting each client to his or her own baseline admission date), most households with a readmission in Philadelphia are likely to experience that readmission in the same year as the first admission, and a much smaller proportion of households (less than half) experience a readmission in the year following the first admission.

The corresponding measure in New York was calculated for family households revealing that 27 percent of the families with a first admission in the first year of the study period had a readmission in the second year, while the overall readmission rate (readmission could be in same year as first admission) for families was 65 percent. Hence, in New York, as in Philadelphia, fewer than half of the families with a readmission will have a readmission in the year following their first admission, although families in New York City are more than twice as likely to enter a shelter in the year following their first admission than are people from Philadelphia (again, note that in this study definitional differences between the two cities for readmission make them noncomparable). In general, however, shelter use in consecutive years appears to be the exception, not the rule, in both cities.

⁵The Single Adult Shelter System in New York City has one large facility that shelters persons who tend to have long stays. On an average night it accommodates approximately 1,000 persons on long-term stays. The stay patterns of these clients will skew turnover rates and system-wide average lengths of stay. The population at this facility comprises primarily older men. The actual turnover rate in Philadelphia is likely to be closer to New York's than this comparison indicates given that the numerator is inflated (approximately 5%) by persons requesting but not receiving shelter and given that the denominator is a proxy for average daily census taken from a single night count in the summer (and therefore is lower than it would be if it accounted for the census in winter months).

Discussion

Although social scientists have repeatedly proved them wrong, advocates for the homeless appear to have been correct in insisting that homelessness affects a much larger pool of persons than has been documented by cross-sectional research. Indeed, more people have stayed in New York and Philadelphia shelters in the last several years than have ever been enumerated on a single night in the United States. While public shelters in Philadelphia and New York have average daily utilization rates of 0.16 and 0.31 percent of the population respectively, on an annual basis they approach 1 percent in Philadelphia and exceed 1 percent in New York City. These annual homelessness rates are three times greater than rates previously documented for either city by point-prevalence studies (Burt 1992; U.S. Department of Commerce 1991a). Those rates multiply over multiple years, to nearly 3 percent in three years in Philadelphia and to 3.3 percent in five years in New York -- consistent with the five-year estimate from Link et al.'s (1993) national telephone survey.⁶

The critical factor that cross-sectional enumerations cannot capture, but which is clearly demonstrated in this study is the magnitude of turnover in the sheltered population. It is this high rate of turnover which accounts for much higher rates of homelessness over time than at a single point in time, and which demonstrates a substantially higher risk for homelessness in the community.

Because this study does not include persons in privately funded shelters or people on the street (the Census Bureau [1991a] enumerated the point prevalence of street homelessness at 10,447 in New York City and 1,069 in Philadelphia in 1990), the findings underestimate the

⁶It is interesting to note that despite significant differences in the average daily census between New York City and Philadelphia, the cities have more comparable one- and three-year rates of shelter utilization. Thus, the different rates of turnover probably reflect as much differences in local shelter policies, which in turn influence admission and stay patterns, as variations in local conditions producing homelessness. Several policy differences between the two sites might help explain the differences in turnover. In 1988 Philadelphia had a public shelter system of comparable size (32 beds per 10,000 population) to the New York City public shelter system in 1992. But in response to city budget cuts, the number of public shelter beds in Philadelphia declined by nearly 50 percent between 1988 and 1990, from 5,100 to 2,800 beds. To continue serving even roughly the same number of clients annually, shelter stays would have had to have declined proportionate to the bed decline. Philadelphia achieved this shortened average length of stay by significantly qualifying its previous commitment to a right to shelter (renegotiated through a consent decree) and by establishing much more restrictive shelter policies, including the creation of a co-payment and savings requirement, and more strict enforcement of behavioral standards, such as mandated participation in mental health and substance abuse treatment programs (see Culhane [1992]). In contrast, the New York City shelter system has generally continued to provide some level of shelter even to those homeless persons who refuse to participate in treatment programs. There is no length-of-stay restriction and no limitation on how frequently clients may utilize the system. Single adults are provided shelter in a general or a specialized shelter (e.g., veterans' shelters, short-term substance abuse treatment, employment shelters, and such). Specialized shelters have various restrictions, such as savings requirements, length-of-stay limitations, and program participation requirements, that general shelters do not. However, clients can move between specialized and general shelters as availability and readiness allow. The Family Shelter System has also established standards for shelter conditions that can include a private room with private bath and kitchen facilities. This factor and the lack of stay restriction are likely to have led to a relatively greater daily census and longer lengths of stay in the family shelter system.

true prevalence of homelessness in both cities. Moreover, because this study is limited to two cities, and given the wide inter-city variability found in previous research (U.S. Department of Commerce, 1991a; Burt, 1992), the shelter utilization rates identified here cannot be generalized to cities across the nation. However, recent data from St. Paul, Minnesota (Chase, 1993) and the state of Rhode Island (Rhode Island Emergency Food and Shelter Board, 1992), as well as unpublished data from other municipalities (see commentary by Burt, this issue), confirm that comparable and even higher rates of turnover have been found elsewhere in the country. Thus, convergent with other sources of evidence, this study demonstrates that homelessness is a far more common experience among poor people, particularly African Americans and African-American children (at least in these two cities), than has been suggested by point prevalence enumerations. These findings suggest that future research and policy should consider the implications of turnover when estimating the risk for homelessness in the community.

Regarding future research directions, the turnover identified here suggests that our existing conceptions of the relative proportion of subpopulations among the homeless, informed as they are by a large body of cross-sectional research, may now be open to reassessment. For example, there is evidence that people with mental disabilities and/or substance abuse problems are homeless for longer periods than others, thus turning over at a lower rate (see Dennis et al., 1993), which would significantly inflate their proportionate representation among the population when examined at a single point in time. Correspondingly, employed and recently unemployed people (the "ordinary working Americans" hypothesized as nonrepresentative of the homeless by Kondratas [1991]), may be more likely to turn over at a higher rate, meaning that their proportionate representation has been significantly underestimated in cross-sectional research.

Further longitudinal analyses of shelter stay patterns are needed to understand the characteristics of persons associated with varying lengths of stay, the probability of multiple admissions, and the time between admissions. Event history or survival analyses can be used to develop profiles of client characteristics associated with varying stay histories, enabling planners to target services designed to reduce lengthy shelter stays and the likelihood of readmission. Longitudinal analyses of stay patterns can also be used to examine the costs associated with varying stay patterns and how stays are influenced by varying types of shelter facilities. In addition, interrupted time series analysis can be used to examine the impact of policy changes on stay patterns and admission rates. The tracking databases described in this study are ideal for these purposes, and given the information they would provide researchers and planners, their replication in other sites should be considered.

Registry and tracking databases are not only useful for shelter system-specific analyses; their potential for answering other important questions regarding subpopulations among the homeless expands substantially if they are integrated with other service system databases. For example, the client identifiers from these databases can be matched with identifiers in

welfare, mental health, housing, AIDS and other service system databases, allowing researchers to identify the eligibility and service utilization patterns that predict to homelessness and to assess the impact of homelessness on those service systems. Likewise, the prior address information reported by individuals who enter the shelter system can be used to calculate admission rates by neighborhood and/or census tract, and to identify the factors from other geographic databases (census, housing, health statistics, crime, etc.) that correspond to that distribution. In so doing, geographic areas with high homelessness rates or with socioeconomic characteristics that predict to high rates of homelessness can be identified for the targeting of homelessness prevention and residential stabilization interventions, and the efficacy of these interventions can be measured by assessing changes in shelter admission rates.

From a policy perspective, the results of this study provide a basis for questioning the emphasis of recent reform proposals that argue for reducing homelessness primarily through the creation of transitional housing and other "continuum of residential care" programs (New York City Mayoral Commission on Homelessness, 1992; US Department of Housing and Urban Development, et al., 1993). In both Philadelphia and New York City most people who use shelters do so on a short-term or intermittent basis, and are not, therefore, "chronically homeless." Forcing (or enticing) such persons into a "continuum of care" system in order to access housing support and social services is likely to lead to many unintended consequences, while doing little to achieve the goal of reduced levels of homelessness. Assuming that reduced utilization of the emergency housing system is a goal, one must presumably decrease lengths of stay in and admissions to that system. By linking more services to the shelter and transitional housing system, a municipality risks increasing both lengths of stay and admissions, either of which alone would significantly increase the daily demand for emergency housing. Anecdotal evidence suggests that some families already enter shelter to receive priority placement on Section 8 or public housing waiting lists (Dugger, 1991). Similarly, requiring people to be homeless in order to be eligible for transitional housing or "continuum of care" services is likely to tap significant latent demand for such services, and could even lead to the "dumping" of clients on the shelter system by other agencies. Indeed, converting the shelter system into a more service intensive system risks institutionalizing a costly and potentially substandard secondary public health, welfare and housing system, while failing to address directly the deficiencies in the existing systems that presumably contribute to shelter utilization. Finally, given the volume of shelter users identified in this study, such a system would also require significant new resources to site new facilities, and to develop the administrative capacity necessary to monitor provider performance and to contain system costs.

An alternative policy, while recognizing the need for transitional housing for the long-term homeless, might seek to support people with short-term or intermittent housing emergencies in maintaining and stabilizing their residential options in the community, rather than providing incentives for entering a separate institution of residential care. As Hopper (1990)

has observed elsewhere, the dominant adaptation of the poor and unemployed to displacement and housing instability historically has been through the maintenance of "makeshift" arrangements of "custom and kinship," with family members "bearing the brunt of makeshift shelter" (p. 444). Hopper therefore asks, "...can [we] mute the damage and enhance the supportive capacity of such networks, and thus avoid the ever more costly mushrooming of the shelter system?" (p. 444).

A community-based strategy could be envisioned that would have the goal of reducing shelter utilization by rebuilding (or creating) the community and social support infrastructure that would enable people to stay in their own homes when possible, or that would attempt to resettle them as soon as possible when their prior housing arrangements are not viable. Such a strategy could be targeted geographically, based on the distribution of the prior addresses of people currently entering the shelter system, and/or demographically, based on the presence of household risk factors for homelessness. Intervention programs might include the provision of case management, community-based health, mental health, substance abuse, and other social services (including crisis intervention, respite services, home care, and residential treatment programs); time-limited and permanent housing subsidies; benefits counseling; employment training and placement; and other targeted economic and community development programs. By placing those programs outside the shelter system and under the authority of existing health, housing, and human service departments, such a policy would have the advantages of addressing the more proximal community conditions leading to homelessness and of addressing the gaps in the existing systems that need to be bridged, rather than duplicating those systems in shelters. It would also reduce some of the perceived incentives for shelter admissions and lengthy shelter stays that would likely come with a continuum of care initiative. The present "shelter diversion" initiative under way in New York City, in which most families are assessed prior to or soon after shelter admission to determine whether they can be diverted from shelter with a time-limited housing subsidy or other intervention, is one example of movement in this direction. Other "homelessness prevention" program models have been described in the literature (see U.S. Department of Health and Human Services [1991], Lindblom [1991] and Jahiel [1992]).

In conclusion, future policy should reconsider the scope of the homelessness problem and the role of turnover when conceptualizing appropriate interventions. In particular, this study's findings suggest the potential benefits of a prevention-oriented approach to reducing homelessness. Programs that attempt to divert people from shelter and/or to reduce unnecessarily long shelter stays are integral to such an approach, as are transitional housing programs that assist long-term homeless persons in reconnecting with community housing and services. However, it should be noted that such programs may have a limited impact in the absence of more broad-based social welfare policies that increase opportunities for and access to affordable housing, jobs, income supports, social services and quality health care.

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**Comment on Dennis P. Culhane, et. al.,
 "Public Shelter Admission Rates in Philadelphia and New York City:
 The Implications of Turnover for Sheltered Population Counts"**

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When I first began in late 1991 gathering examples of computerized data systems capable of unduplicating across all homeless facilities in a jurisdiction over time, I was shocked and a bit reluctant to believe the turnover rates these systems produced. Several jurisdictions reported serving five, six, and as high as ten times as many people (unduplicated) during the course of a year as they served on any average night. While I did make some use of these data in a manual on techniques for counting the homeless (Burt, 1992a), most of the systems tracked families only, rather than including single homeless persons, and I did not fully focus on the implications should these patterns prove more universally true for the total homeless population.

Since that time the number of jurisdictions capable of producing unduplicated system-wide counts for a period of one year or longer for singles as well as families has grown (although they can still be counted on two hands). The evidence has mounted that the early data were not flukes, nor were they typical only of homeless families rather than of people homeless by themselves. Dennis Culhane and his colleagues have documented turnover rates for Philadelphia at the level I encountered in other systems (six times a year and higher). Turnover rates for New York are lower (although the numbers are obviously greater), but in some ways can be taken as illustrative of a system operating strictly on demand.

Before commenting on the implications of these data for public policy, I want to do three things: 1) place the New York and Philadelphia data in the context of comparable data from other jurisdictions that represent a wider variety of locales; 2) raise some considerations about who are left out of these data; and 3) discuss the implications of constraints on shelter beds and on length of stay for interpretations of the Culhane et al. counts and those from similar computerized shelter-based systems.

The New York and Philadelphia data in context

Some people may react to data from the nation's two biggest Northeastern cities, New York and Philadelphia, as so atypical of the country as a whole that we should not use them as the

basis for policy decisions. I therefore have assembled data from as many systems as I know of that have a reasonably stable and consistent tracking database. This information, presented in table 1, allows us to place the New York and Philadelphia data in context.

Table 1 shows the jurisdiction and the 12-month period covered in its first two columns. The next two columns present the numbers generated by these jurisdictions' tracking databases, first for the total number of (unduplicated) *persons* served during the 12-month period, and then for the total number of *households* considered family households by the system; these family households almost always include at least one child. The next two columns translate the numbers into percentages (rates per 100), based on the *total number* of the jurisdiction's persons and families with children (based on 1990 Census figures). The final two columns make the same translation into percentages, but use the number of *poor* persons or families with children as the population base rather than the total population. The New York and Philadelphia data from Culhane at al. appear in the first two rows, followed by data from seven other jurisdictions or systems including two whole states (Rhode Island and New Hampshire) and several city/county catchment areas. The jurisdictions include two in the Midwest, two in New England, one in the South, and two in the West; collectively they provide a variety of economic and regional circumstances to compare to New York and Philadelphia.¹

I want to make two main points from the data in table 1: 1) the New York and Philadelphia rates are within the range of rates documented in other cities—they are not extreme; and 2) the variation in rates among cities is considerably curtailed when one uses the poor population, and poor families with children, as the denominator rather than the total population.

A glance down the four right-hand columns in table 1 will reveal that Philadelphia and New York present neither the highest or the lowest annual rates among these jurisdictions. As Culhane and his colleagues point out for Philadelphia and New York, annual data appears to smooth out considerable differences in shelter capacity and turnover rate between cities. For the jurisdictions in which the system covers both a city and county where the county extends beyond the city borders, rates are higher using the city population as denominator, but still impressive when using the total county population as the denominator.

¹The data from nine counties in the San Francisco Bay area are included because they come from a computerized state data system, run through the welfare department, that registers all AFDC-eligible families who receive emergency housing assistance. Homebase, the publisher of these data, maintain that all recipients were homeless at the time of receiving assistance; the very high rates produced by this system raise questions about this categorization, especially in relation to the poverty population. The data are included in table 1 because, whether or not we believe recipients of this assistance would meet accepted definitions of homelessness, they certainly are low-income people in need of housing assistance.

Table 1: Unduplicated Annual Data from Jurisdictions with Jurisdiction-Wide Coverage and Capacity to Unduplicate

Jurisdiction	Period Covered	Numbers of Homeless Persons and Family Households		Percentage of Persons/Families with Children		Percentage of Poor Persons/Families with Children	
		Persons	Family Households	Persons	Family w/Children Households	Persons	Family w/Children Households
New York City (Culhane et al.)	CY 1992	85,916	18,220	1.17	2.32	6.08	8.10
Philadelphia (Culhane et al.)	6/91-5/92	15,241	2,134	0.96	1.32	4.74	4.48
Columbus/Franklin County, OH (CALLVAC)	7/92-6/93	4,919	851	0.78/0.51*	1.12/0.70*	4.52/3.93*	5.39/4.88*
St. Paul/Ramsey County, MN (Chase)	CY 1992	5,778	665	2.12/1.19*	2.11/1.10*	12.71/10.43*	9.66/7.80*
Los Angeles County (Shelter Partnership)	7/91-6/92	174,185	19,272	1.97	1.86	13.02	9.87
New Hampshire (NHDRHS) ^b	CY 1992	3,294	272	0.30	0.19	4.64	2.93
Rhode Island (RI Emerg. Food/Shelter Board) ^b	CY 1991	4,275	692	0.43	0.59	4.44	4.81
Louisville/Jefferson County, KY (Crouch)	CY 1992	N.A.	360	N.A.	1.19/0.43*	N.A.	3.58/3.87*
San Francisco Bay Area--9 counties (Homebase) ^c	CY 1990	N.A.	23,944	N.A.	3.33	N.A.	33.81

NOTE: "Family Households" = households with children present, since the vast majority of homeless family households fit this description, and some jurisdictions use the presence of children as their definition of a "family household." Data sources (noted in parentheses) may be found in "References."

a First percentage uses city population as denominator; second percentage uses county population as denominator. These systems serve their whole county, but the vast bulk of the homeless probably come from the city and not from the balance of county, so I give percentages calculated both ways.

b Published data interpolated to obtain best estimate of unduplicated counts.

c This database probably registers non-homeless people who receive temporary housing assistance even though it is considered an "emergency" housing fund.

It is common to use the total population (or total number of families with children) in calculating homeless rates, as Table 1 shows in columns 5 and 6. However, it is a reasonable assumption that all or most people who become homeless were poor before homelessness occurred, and therefore a more policy-relevant rate is the proportion of *poor* people who experience homelessness during a given time period. The rates for all homeless persons divided by the total population of a jurisdiction (column 5) vary by a factor of seven from the lowest to the highest (0.30 to 2.12). However, if only the poor population of the jurisdiction is used as the denominator to calculate percentages in place of the total population, the variation among jurisdictions shrinks considerably, to only a factor of three (4.44 to 12.71). Performing the same comparisons for homeless families as a proportion of families with children shows a factor of 12 using all families with children as the base (0.19 to 2.32, omitting the San Francisco Bay area counties), but again a factor of three when only poor families with children are the denominator (2.93 to 9.87, again excluding the San Francisco Bay counties). Another important consideration revealed by the figures in Table 1 is that the differences in rates when city versus county populations are used as the base is substantial when the total population is involved, but shrinks to relatively little difference when only the poor population is being considered. This pattern suggests that the poor population is a more appropriate--or at least more revealing--base against which to calculate homeless rates than the total population of a jurisdiction.

All in all, data from other jurisdictions indicates that the New York and Philadelphia data presented by Culhane and his colleagues is generally in line with the experience of other cities in other regions of the country.

How many homeless people do these systems miss?

Culhane et al. comment that the New York and Philadelphia shelter-based data systems do not account for all homeless people, for three reasons. First, they cite the existence of privately-operated shelters whose users are not registered in the computerized data system. Second, they note that in these two cities, persons staying in transitional shelters are not included in the counts. Third, they raise the issue of the considerable number of people (over 10,000 in New York and over 1,000 in Philadelphia) found on the streets rather than in shelters. However, while shelter-based methods will always miss some people, these potential failings of the data systems may not be as serious as these authors believe, given the long time frame of the tracking databases.

The people entering privately-operated shelters in these cities will be missed by the computerized systems to the extent that they *only* use the privately-operated shelters and *have never* registered for city-supported shelter. Based on my knowledge of how the privately-run shelters in these two jurisdictions operate, that may be a reasonable assumption to make for

many of the people using privately-operated shelters, but not for all of them. Some privately-run shelters are transitional or specialized (e.g., for families, or for the mentally ill), and thus are likely to receive clients referred from the public systems. There is also the question of whether it is fair to generalize patterns of stay in city-supported shelter to those operated privately outside the city systems. I do not know the actual shelter patterns, but if length of stay is significantly different (either longer or shorter) in the private shelters compared to the public ones, one cannot make a simple projection of numbers missed based simply on bed counts.

The omission of transitional shelter stayers from the New York and Philadelphia data bases is probably not a serious source of undercounting. The vast majority of people entering transitional shelters in these cities have come from emergency shelters, and therefore each tracking system will include them in its totals.

Culhane et al.'s remarks about the number of "street" homeless who may be omitted from these tracking systems is potentially the most misleading. Cross-sectional studies that ask about past service use find that many homeless people found on the streets at any given time are likely to have used a shelter in the relatively recent past. For example, Farr, Koegel and Burnam (1986) found that 49 percent of homeless persons found at street congregating sites during the daytime had used a shelter bed during the past *month*. Burt and Cohen (1989) found that 35 percent of homeless persons found at such congregating sites during the early evening hours had used a shelter during the previous *week*. And SMS Research (1992) found that although only about 18 percent of Hawaii's homeless used a shelter on the night before they were counted, almost 90 percent had used a shelter at least once during the past year. These data suggest that sizeable proportions of the street populations in urban areas have used shelters at some time, and are likely to be included in the long-term tracking systems described by Culhane and his colleagues.

None of this should diminish the startling nature of Culhane et al.'s findings. Their numbers are high enough to cause serious rethinking of the antecedents, and possible antidotes, to homelessness. My remarks are meant, rather, to remind the reader that it is often treacherous to draw inferences from a combination of over-time and cross-sectional data without taking great care with one's assumptions.

Constraints on demand and their implications

In any system of finite services (such as a given number of shelter beds), if people stay longer fewer new people can come in. Conversely, if length of stay rules force people to move out after very short stays, more people can be served during a year. Assuming that everyone stays for the full length of time allowable and that every bed is filled again as soon

as it is vacant, a system with 100 beds will serve 1200 people a year if stays are limited to 30 days, but only 400 people a year if stays are 90 days in length.

Most homeless shelter systems maintain a relatively finite supply of beds, and most shelters have some length of stay limitations. New York City is the exception, because "right to shelter" operating procedures leave it with no restrictions on length of stay and no limit on the number of persons accommodated. More than anywhere else in the country, New York's shelter capacity expands to meet demand. Therefore the average length of stay of four months can be assumed to reflect the length of time that homeless people in New York City need to get themselves back into housing of some variety, given the city's very constrained low-cost housing market. The total number of people served can be assumed to provide some realistic reflection of homeless vulnerability of the city's larger population.

In most of the other jurisdictions included in Table 1, shelters maintain some type of maximum length of stay--usually 60 or 90 days. Average lengths of stay appear to be somewhat shorter than the maximums, but it is not unreasonable to assume that knowledge of the maximum affects the behavior of shelter stayers. One might be tempted to conclude that turnover rates are spurious numbers, driven exclusively by length-of-stay rules. I believe this is the wrong conclusion, *given* that a vacated shelter bed is filled rather quickly with another clearly homeless person. And this appears to be the case in all cities for which we have data. Shorter maximum shelter stays give more people the opportunity to be counted by the system, since they force beds to be vacated and therefore make them available to be refilled. But, in most of these jurisdictions the average length of stay is significantly shorter than the maximum allowable length of stay. Average lengths of stay in jurisdictions other than New York City run from three months (Los Angeles) to 6-8 weeks (Philadelphia) down to as little as 14 days (families in Rhode Island), suggesting that most people use shelters for quite brief periods. The relative constancy of annual rates calculated as a percentage of the *poor* population of the jurisdictions in Table 1 suggest that structural factors in American cities produce a near-endless supply of needy individuals and families to take advantage of any shelter vacancies that occur. And these people are clearly homeless, and therefore appropriate to be counted. Their relatively short average length of stay may reflect the temporary, though obviously serious, nature of their housing crisis, or it may reflect the relative availability of housing in the different cities. An important question for future research is to learn where people go when they leave shelter, and whether they could have been helped to reach a stable destination without having to pass through the shelter system.

How service structures influence levels of homelessness

In this section I will talk about how the nature of the service system influences perceived levels of homelessness, and potential distortions that may arise from inclusion and exclusion.

When we use the shelter system, or any system of organized care, as the source of estimates of a population's size, whether we like it or not we end up with a *de facto* definition of that population. In the case of homelessness, a shelter stay is a defining event--a person who sleeps overnight at a shelter is homeless. But shelter systems have a dynamic of their own which may influence their attractiveness to the people in precarious housing situations. The system structure may also include a diversion or prevention component that screens applicants and offers some the resources to find stable housing *without ever entering a shelter*. Or, the system being used to register someone as homeless may also provide services to anyone with needs for housing assistance, thus inflating the numbers considered literally homeless (this is what we believe happens in the San Francisco Bay area, where homelessness is attributed to as many as one-third of all poor families with children on the basis of accessing a special housing assistance fund--see Table 1).

Since the late 1980s, many shelters have added a range of services that may be attractive to some precariously housed individuals and families. Some communities limit their issuance of all new housing subsidy vouchers or certificates (Section 8s) exclusively to households that are in the shelter system. Anecdotal evidence suggests that at least some persons using shelters do so in the hope of receiving a permanent housing subsidy voucher. Alternatively, they may come to a shelter because it is the only place they know of where they can access educational assistance, job training, help with entitlements, substance abuse treatment, and other services. Culhane and his colleagues rightly raise the issue of whether it is sound public policy to load shelters with expanded services, rather than making these services available to community members prior to the level of desperation that brings people to a homeless shelter.

In addition to enriching the shelter environment, which may draw people into officially defined "homelessness" to gain access to services, many localities are placing an increased emphasis on prevention. The effect of these efforts is to divert people who have no permanent place to stay (and thus are technically homeless) away from shelters toward more stable living arrangements in conventional dwellings. Therefore they are never counted as "homeless." For example, the State of New Hampshire reports that its annual "homeless" population (those using shelters) declined by 35 percent over three years, from 7,847 people in 1990 to 5,065 people in 1992. This occurred in part because those in shelters stayed longer, but the larger part of the shift occurred because the state offered assistance with finding and maintaining stable housing to 30,364 people in 1992, compared to 12,167 people in 1990 (New Hampshire DHHS, 1992). All of the people being offered preventive services were without a regular place to stay when they applied for assistance, and would have remained literally homeless (staying in shelters or on the streets) without the help provided. Thus the real level of need expanded during these three years from 20,004 people to 35,429 people. The state reports both of these figures, and focuses on the overall level of need for housing assistance. But it is all too easy for homeless researchers to use the narrow definition

of literal homelessness to indicate a shrinking problem.

In their discussion of how New York City processes family shelter applications, Culhane et al. note that New York also attempts to divert as many families as possible, who then are not counted as homeless (i.e., they never get into the computer system). Yet at the time of their application they would meet a McKinney definition of literal homelessness. The larger issue for policy is, once again, the total level of need at the low end of the income distribution, rather than the count of who spends some nights in a shelter during a year's time.

Policy implications

Several important policy implications derive from the data presented by Culhane and his colleagues, and supported by the evidence presented above in Table 1. For me, the most important implication is that a very large number of people in this country appear to be vulnerable to homelessness, and to experience it during the relatively short periods of one, three, or five years. The size of this vulnerable population and the consistency of its relationship to the population in poverty, supports structural interpretations of homelessness such as I have presented elsewhere (Burt, 1992b), and that Culhane et al. reiterate. Inadequate educational preparation, shrinking opportunities for well-paying jobs, growing inequality and two-tier labor markets, public benefits that have lost purchasing power—all affect the ability of the non-disabled poor to make ends meet and cover housing costs.

The second implication of the larger data set I present in this paper is that numbers are tricky. When you look beyond the numbers of people who can be considered literally homeless to the evidence from several systems (e.g., New Hampshire, San Francisco Bay area) that a great many more people are in desperate need of housing assistance, the data strongly support the interpretation that the whole band of households at the lowest end of the income distribution is in serious trouble, and that policy throughout the 1980s has not succeeded in tempering the push into periodic homelessness. Certainly this is important for housing policy, in terms of the potential utility of increased subsidy support. But it is also important in many other policy arenas such as education and employment policy. There appear to be no short-term solutions that will successfully end the flow of people into short periods of literal homelessness. Only serious long-term efforts will really address the critical issues.

The third implication is that we need differentiated approaches to the long-term homeless, many of whom suffer from serious disabilities, and the short-term homeless that Culhane et al. (and to a lesser extent this commentary) have documented. The seriously disabled among the homeless can be helped by a combination of permanent housing subsidies coupled with supportive services. The short-term homeless may not need the intense assessment and

correction strategies inherent in the transitional or continuum-of-care models. Rather, much more attention to the prevention side of the picture, making more needed services and resources accessible to people without their having to enter a shelter, seems a more humane and a more reasonable approach to helping people in emergency situations.

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**Comment on Dennis P. Culhane et. al.,
 "Public Shelter Admission Rates in Philadelphia and New York City:
 The Implications of Turnover for Sheltered Population Counts"**

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Introduction

The authors of this paper make a case that "turnover among the homeless is significant and that many more people are likely to be homeless over time than at a single point in time." (p. 4) They demonstrate this point by analyzing shelter entry and re-entry data from the Philadelphia and New York City public shelter systems. No one, of course, has ever suggested that annual rates and multi-year rates are *not* greater than point-prevalence estimates. The contribution of the paper is that, at least for these two cities, for the population in public shelters, the reader is presented with data that illustrate just how much greater. The authors conclude that the "unduplicated annual counts are three times greater than any rates previously documented for either city by point-prevalence studies." (abstract) This is not surprising, and is consistent with prior estimated turnover rates in various locales and for the country as a whole. Indeed, the paper mentions several prior turnover estimates which range from 2.3 to 5.8. (p. 4)

Culhane et al. also review a number of recent surveys which indicate that more Americans have experienced homelessness over time than many would deem consistent with the 0.1 to 0.4 percent point-in-time estimates. They cite, among others, a paper by B. G. Link et al. which reported that 3.2 percent of the American people may have experienced homelessness over a five-year period in the late 1980's, which would be about 7 million persons.¹ Their self-posed "research question" is whether the "high" estimates can be reconciled with the "low" estimates, and they seem to conclude that the multi-year estimates vindicate the claims of homeless advocates that the problem is much "bigger" than the federal government has until recently been willing to acknowledge.

In spite of careful couching of their conclusions -- acknowledging, for example, that New York City and Philadelphia data cannot be generalized to other cities and not taking issue with the convergence of estimates in point-prevalence studies -- the authors nonetheless

¹Referenced in their bibliography.

attribute more policy significance to their findings than is warranted, and sometimes their conclusions overreach the data presented. They strongly imply that the problem of homelessness is much greater than previously assumed by scholars and policymakers because it "affects" a larger pool of persons than the number at a point in time. They draw conclusions about the characteristics of homeless persons implied by high turnover (e.g., greater likelihood of employment or recent employment) without having presented any data on such characteristics. They also infer "structural" economic causes for homelessness simply from the turnover rate, without an adequate discussion of how government shelter policies affect both first-time entries *and* turnover.

Defining the scope of homelessness

Turnover rates can provide useful information for policymakers but do not shed much light on the so-called numbers debate, because annual and multi-year rates do not define the scope of a social problem as conventionally understood by the public. When scholars argue that the point-prevalence estimate does not define the relevant scope of a problem, the public perceives only that there is an argument about numbers, which in public discussion generally comes out to be understood as point-in-time numbers. The media and public appear to have little understanding of what additive longitudinal data mean and little tolerance for such complexity.

What else can be expected? The number of poor people announced every year is a point-in-time estimate (even though there is great turnover in the poverty population); the number of unemployed is the number at a given point in time (even though there is turnover); the number of persons on welfare is at a point in time (even though there is turnover in that population as well); and so on. The dynamics of entries and exits into and out of these populations are important to understand so that proper policies for sub-groups with different characteristics can be designed, but they are *highly misleading* if used to establish *rates* of a problem, because the rate will depend on the (arbitrary) period of time chosen and can be made to be as big as one pleases. (It is ironic that the authors assume a static poverty population in order to establish a "rate" for the number of poor using shelters over a three-year period. p. 15)

As illustration, assume that, because of turnover, the number of unemployed over three years is "really," say, 18 percent and not the 7 percent or so of a point-in-time estimate. Suppose a group of scholars defined the three-year 18 percent rate as the relevant or "real" scope of the problem because 18 percent and not 7 percent of the labor force was "affected" by unemployment and was "at risk." What would policymakers and the public do with such an assertion? Probably nothing. It is easy to figure out that being "at risk" of unemployment, or *having been* unemployed, is not the same thing as *being* unemployed. Otherwise, one

would have to conclude that point-prevalence estimates were underestimates of any social problem by definition.

Similarly, the arguments over characteristics of a subject population can rage on not because people disagree on the facts, but because they are looking at different things. Take the welfare population. Some choose to look at welfare recipients over time (more will be short-term, less dependent) as opposed to a given point in time (more will be long-term, more dependent). Both perspectives have policy relevance, but at least nobody is arguing about how many welfare recipients there are, *because the point-prevalence estimate defines the scope of the problem.*

So why are the homeless numbers so different? The reason for the muddle on homelessness figures, of course, lies in the contentious history of the numbers debate.² There was long no agreement on a reasonable point-prevalence range, nor is such data collected and reported regularly. In recent years, however, a consensus *has* developed among scholars and policymakers about a reasonable point-prevalence range, and it numbers in the hundreds of thousands. Since this has not adequately filtered down to the general public, any suggestion that point-prevalence estimates are not the relevant way to look at the problem, or a misleading way to look at the problem, is bound to lead to confusion.

Scholars, of course, are not necessarily to blame for misuse and misinterpretation of their study results, but since Culhane et al. undertook their research for its policy relevance in defining the scope of the problem, they cannot ignore the potential real-life impact of their work. Like the previously referenced Link paper, this one practically begs to be misinterpreted. How would the average person, for example, whose eyes would glaze over at the tables and charts, interpret the following conclusion: "...advocates for the homeless appear to have been correct in insisting that homelessness affects a much larger pool of persons than has been documented by cross-sectional research.... clearly demonstrated in this study is the magnitude of turnover in the sheltered population. It is this high rate of turnover which accounts for a higher rate of homelessness over time than at a single point in time...." This is less a research finding than a tautology, since turnover accounts for much higher rates of everything over time.

Moreover, saying that advocates were right is wrong, because the paper misstates what the argument was about in the 1980's. Policymakers were not denying that there was a much larger "pool" "affected by" homelessness than were actually homeless. Advocates, however, were insisting that the number of homeless at a given point in time was grossly underestimated, and they were wrong. The fudging as to what they "really meant" came

²Kondratas, Anna. 1991. Estimates and Public Policy: The Politics of Numbers. *Housing Policy Debate* 2(3):631-47.

later, and is apparently still continuing.

This is not just an academic point. A recent case of the misuse of social research is illustrative. The seven-million-homeless-over-five-years figure previously referenced recently found its way into the Clinton administration's draft plan to end homelessness.³ The draft was leaked to the *New York Times*, which ran a story about how the Clinton Administration "says the problem is 'far larger than commonly thought,'" and "endorses recent estimates that as many as seven million Americans were homeless at some point in the 1980's."⁴ So far, so good, but the number was contrasted with the upper limit of the point-in-time estimate used by the Bush Administration (600,000). This resulted in a spate of derivative stories across the country.

I was asked to comment on the *New York Times* story by several print and television journalists, none of whom had actually seen the administration's report, let alone the paper from which it called its figure of 7 million. Nonetheless, most of them duly went on to "report" that the administration was claiming 7 million homeless, and that Republican administrations had never acknowledged the scope of the problem. In vain did I try to persuade them, having seen the draft, that the administration made no such claim.⁵ My contribution on one TV segment was reduced to an incomprehensible, dull sound-bite about multi-year figures not being the same thing as point-in-time counts, which sounded like bureaucratic evasion, while advocates on the same segment professed themselves to be thrilled that the federal government finally recognized the true scope of the problem. The misinformation spread across the country. An editorial in the *Nashville Tennessean*, for example, summed it up as might have been predicted: "The government report says as many as 7 million people *are* homeless in this country. [My emphasis.] Previous estimates had stood at only 600,000."⁶

The media, of course, are far more interested in sensationalizing a story and creating conflict than in adequately researching and communicating reasonable interpretations of the facts. But if scholars use expansive measures of homelessness, knowing full well that no other social indicator is measured or interpreted like that, what can one expect from the press?

³Priority: Home! The Federal Plan to End Homelessness Building a Comprehensive Solution, (no date).

⁴DeParle, J., (1994). Report to Clinton Sees Vast Extent of Homelessness. *New York Times*, Feb. 17.

⁵The administration, however, was highly irresponsible in using such a number without providing any context whatever for understanding it, and in not evaluating critically the survey questionnaire on which it was based.

⁶*The Tennessean*, February 26, 1994. Grim Truth on Homeless.

Implications of turnover for policy

The authors acknowledge that cross-sectional estimates are useful for "immediate planning needs (i.e., planning shelter capacity)," but that they are inadequate in explaining the "magnitude of the problem over time." (p. 3) Actually, the only way to evaluate the magnitude of the problem over time is not to determine annual and multi-year rates but to do point-in-time estimates or counts by consistent methods at regular intervals from year to year so that one could see whether the "magnitude" of the problem was increasing or decreasing and whether and how the population was changing.

The future research avenues proposed by Culhane et al., namely, to look at turnover data over time to determine the characteristics of the homeless, would simply increase the proportion of short-term homeless to the long-term homeless in the period under study and lead to the kind of debates about "who the homeless really are" as currently take place about who typical welfare recipients are. It would, in short, provide the basis for a different "profile" of the homeless population, not a different "magnitude" as the ordinary person understands it.

The authors believe that analysis of turnover data over time would increase the proportion of people with less severe problems in the overall population of extremely poor persons experiencing homelessness, suggesting that for some of the homeless (even most of those who experience homelessness if one looks at a long enough period), homelessness may be episodic and more related to a crisis or "structural" economic factors than to chronic personal problems, mental illness, or substance abuse. This is plausible, and the authors cite some evidence to this effect from other studies, but their own findings neither confirm nor contradict such a view, since they do not present data on the relevant characteristics of the shelter users they tracked.

This is not the only conclusion based on the literature they reviewed, or simply on a hunch, rather than on the data they presented. They also state, for example, that "employed and recently unemployed people... may be more likely to turn over at a higher rate, meaning that their proportionate representation has been significantly underestimated." Note the transition from "may be" to "has been." It is not atypical of the tendency of the authors to overstate their case.

What is disappointing about the data presented in this paper is that much space is devoted to describing it but little to analyzing it. There are some interesting bits of information throughout that the reader wishes the authors had evaluated. For example, Table 4 seems to indicate that singles are a higher proportion of the three-year population in Philadelphia and New York City than of the one-year population, indicating more first-time entries of singles over the three years than of families. As the authors explain, this suggests a comparatively

higher turnover among single adults than families. This is intriguing, because it indicates a larger potential pool of homeless persons (those at risk) among singles than families. If one relies on cross-sectional analyses of the characteristics of the homeless, such a finding is counter intuitive, because such studies indicate that the singles are the more "troubled" population and therefore more likely to be long-term homeless as compared to families -- one would expect more turnover among families. Had the authors collected data on the relevant characteristics of the shelter users they surveyed, they might have come up with some evidence for their thesis of underestimates of episodic, "structural" homelessness among singles.

The scope of their findings, however, is limited only to what they call "magnitude," not characteristics. They do find over representation of minorities in the homeless population, but this is already known from cross-sectional analysis. New York has an atypical (in fact, unique) percentage of families in public shelters compared to other cities, but because the number is so large, some description beyond racial identification might have been helpful in analyzing turnover data. How many families have two parents? How many are on welfare? Is there any difference in the rapidity of turnover based on any of these characteristics?

There are other problems beyond the researchers' control in comparing the two cities, and drawing nationally applicable conclusions. The two cities measure readmissions differently, for one thing, and data is available for overlapping but different time frames. It is not only research design but also the limitations of the data, in other words, that leave many unanswered questions. But it is also the unanswered questions that limit the relevance of turnover data for policymakers.

Policy directions

In spite of the acknowledged limitations of their data, the authors move from that basis to critiquing recent local and national homeless policies and recommending changes in focus. They raise many legitimate points, but most seem based more on their collective experience than on the actual findings of their study. Further, the "recent reform proposals" they question, transitional housing and continuum-of-care, are hardly new approaches. From 1989, the Bush Administration emphasized the need to move from an emergency shelter mode to expanding transitional and permanent supportive housing and better local and intergovernmental coordination (shelter plus care, from outreach to permanent housing), and the history of its budget requests and legislative proposals bears this out.⁷ By 1991-92, this

⁷Kondratas, Anna. November 1991. Ending Homelessness: Policy Challenges. *American Psychologist*, Vol. 46, No. 11, 1226-1231.

approach was formalized in a Federal Plan To Help End Homelessness, which also stressed prevention strategies and expanded access to mainstream housing and welfare programs for the homeless.⁸

The "old" federal plan, of course, has been consigned to bureaucratic oblivion, while the "new" one is still being birthed. But the Clinton Administration's budget proposals and rhetoric do not seem to be offering policy prescriptions or breakthroughs that are inconsistent with the Bush Administration's plan and budget requests in the essentials. The Clinton Administration's continuum-of-care approach is a new label on the old shelter-plus-care philosophy.

The authors feel that their data show that most homeless persons are not chronically homeless (although that is a debatable conclusion), and thus do not think that they should be "forced or enticed into a 'continuum-of-care' system." Such a view is based on a misunderstanding of what a continuum-of-care approach is all about. In some ways, it is simply a fancy term for coordination of services. It starts with analysis and diagnosis of a person's needs. It does not force everyone along each step of the same continuum. No one is forced or enticed to accept services they do not need. The danger is really greater that coordination breaks down or services are not available.

Nonetheless, the authors correctly see the dangers of developing a separate system of services for the homeless and expanding it, rather than changing misguided policies and concentrating on reforming and repairing the safety net of mainstream programs, but that die was cast when the McKinney Act was passed in 1987. (I had suggested in 1985 that a separate homeless system was not the way to go.)⁹ The authors are correct to fear increased admissions and lengths of stays in shelters because of the lure of being offered priority for public housing and Section 8, because it has already happened.¹⁰ Expanding services in a homeless mini-system is also likely to result in more "dumping" of clients on the shelter system by other agencies in the mainstream system. That, too, is happening. (Expanding the definition of homelessness would increase this effect.)

The authors also have a point when they say that prevention of homelessness by shoring up the institutions of family and community and fixing the holes in mainstream programs and policies that allow people to drop into homelessness in the first place would be superior to creating an ever-expanding (even if improving) parallel system of services serving only the homeless. But this would be the best policy regardless of the scope of the problem and the

⁸Dolbear, C. N., Federal Homeless Social Policies for the 1990s. *Housing Policy Debate*, Vol. 2, Issue 3.

⁹Kondratas, Anna. (1985). *A Strategy for helping America's homeless*. Washington, DC: Heritage Foundation.

¹⁰Ellickson, R.C. (1990, Spring). The homelessness muddle. *The Public Interest*, 99, 45-60.

turnover rate. Prevention is always worth a pound of cure.

Conclusions

The authors are correct in assuming policymakers would benefit from better data on the dynamics of homelessness, since documenting entries and exits over time would provide insight into the causes of homelessness and what works in ending it for what kinds of persons. Their policy discussion reflects the frustration that providers of homeless services have long felt in being part of a parallel housing, health and welfare system for the homeless, with all the attendant costs and inefficiencies this implies, when the mainstream housing, health and welfare systems, with far more adequate resources, should be serving homeless persons as well.

They are on shakier ground, however, in claiming that shelter turnover data suggest the problem of homelessness has been underestimated. Defining "scope of homelessness" to include everyone who was or might be homeless over a period of time is not so much defining the parameters of a population as expanding a definition to include the extremely poor and those with other risk factors under the rubric of homelessness. Knowing who these people are is helpful; calling them homeless, or "affected by homelessness," is not. This would only serve to expand the separate homeless service systems the authors decry, rather than integrate at-risk populations (and the homeless) into mainstream systems.

In a footnote, the authors explain that differences in rates of turnover at shelters between New York City and Philadelphia "probably reflect as much differences in local shelter policies, which in turn influence admission and stay patterns, as variations in local conditions producing homelessness." (footnote 5) This offhand observation seems to undermine their entire thesis. If this is the case, it is hard to see why they conclude that the results of their study indicate that the "scope of the homelessness problem," however defined, should be reconsidered at all. Perhaps what should be studied first is how shelter policies contribute to, alleviate, or reduce homelessness.

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**Comment on Dennis P. Culhane, et. al.,
"Public Shelter Admission Rates in Philadelphia and New York City:
The Implications of Turnover for Sheltered Population Counts"**

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Introduction

Dennis Culhane and his co-authors have made an important contribution to our understanding of contemporary homelessness. Up to this point, attention has been all too exclusively focused on point prevalence estimates. His credible calculations of period prevalence estimates of the sheltered homeless in Philadelphia and New York tell us that the cumulated-over-time impact of homelessness is quite high. Their findings may enable homelessness policies to become more carefully and closely tailored to differences among the homeless in their needs for resources and services.

The emphasis in the last paragraph should be placed on the adjective "credible": There have been other period prevalence estimates derived from cross sectional studies, such as Burt's (Burt, 1989) and my own (Rossi, 1989), but they were built on frail foundations and therefore not fully credible. I never felt comfortable with the annual prevalence estimates I calculated for Chicago because they were based on time of entry into homelessness reports from homeless individuals and buttressed by what I believed to be foolishly heroic assumptions. Longitudinal data of reasonable validity were needed and such data were absent (or at least not known to many homeless researchers.) Culhane's exemplary use of administrative data collected by the large public shelter systems of New York and Philadelphia goes a long way to filling in one of the important gaps in your knowledge of the impact over time of homelessness in two of the major cities of the United States.

It was always abundantly clear to scholars with elementary statistical knowledge that period prevalence homelessness rates, when credibly calculated, would be magnitudes larger than point prevalence rates. That conclusion was inevitable given the highly skewed distribution of lengths of time homeless found in cross sectional surveys as indicated by the usual large differences between mean and median lengths of time homeless.¹ What was problematic was the size of that magnitude difference. Culhane's major contribution is to provide credible

¹In the Chicago study (Rossi, 1989) we found the mean months homeless to be 21.9 and the median, 7.6.

magnitude estimates of period prevalence for a significant component of the homeless population and to show how much larger such estimates were than the point prevalence ones.

All that said, there remain serious technical, substantive and policy issues in Culhane's approach, as elaborated in the remainder of this paper.

The different meanings of point and period prevalence measures

There are no intrinsic contradictions between point and period prevalence measures. They are simply measures of different sorts with different meanings and uses. Neither form of measurement can be regarded as the "right" way to measure homelessness. To suggest, as Culhane almost does, that period prevalence measures are somehow superior is misleading.

A point prevalence measure concerns the size and composition of some phenomenon at a given point in time. Accordingly, a point prevalence measure of homelessness for (typically) "an average day" provides an estimate of the number of homeless persons on that composite day. It is a useful estimate for some purposes. For example, from the perspective of someone planning a shelter system or food kitchens for the homeless, point prevalence estimates are estimates of the potential demand for shelter and food.

In contrast, a period prevalence measure of homelessness provides estimates of the number of persons who are ever homeless during the period in question, i.e. an annual prevalence measure counts the number of persons ever homeless during a year. A period prevalence measure counts the number of persons affected by homelessness over that period. It might be regarded as a cumulative impact measure. Policy makers concerned with the extent to which a given condition impacts upon the total population of an area would find period prevalence rates of considerable interest, as would those concerned with developing preventive measures.

Much more information is provided when both measures are available. A point prevalence measure and a period prevalence measure approach each other in size when the condition being counted is of uniform time duration. If everyone who became homeless over a year remained homeless at least for a year there would be little difference between the two rates. The rates diverge when the lengths of time homeless vary among the homeless. Accordingly, diverging point and period prevalence rates indicate duration differentiation among the homeless suggesting that relevant policy ought to take such differences into account. More direct evidence of duration differences is provided by the turnover measures also provided by Culhane.

The implications for policy of such duration differences are not transparent, as will be shown in a later section of this commentary.

"Political numbers" and "scientific numbers"

It is very hard to understand why anyone took seriously the early 1980s estimates of homelessness issued by Mitch Snyder and the Committee on Creative Non-Violence. These were "political numbers" cobbled together out of wishes and guesses, bolstered by a few haphazard telephone calls to local informants in some small selection of cities, and designed to make a political point by astounding and amazing our political decision makers and the mass media with the message that "millions" were homeless.

It is not clear whether Snyder's estimates were of point or period prevalences, or, indeed, whether Snyder knew the difference between the two kinds of rates². What was clear at the time, however, is that his estimates had no scientific standing. There was no reason at the time to regard those estimates seriously because they had not been calculated using methods that had any standing in the social science community. That they were taken seriously indicates the eagerness of such groups to find some bolster for their belief that the problem of homelessness was very large.

It is even harder to understand why anyone takes Snyder's estimates and the guesses of other advocates seriously today, long after all social scientists have rejected them as examples of zealotry. It is very disappointing to see Culhane refer to such political numbers as if they had any standing. His conclusion that "...advocates for the homeless appear to have been correct in insisting that homelessness affect a much larger pool of persons than has been documented by cross sectional research" clearly confuses the differences between political and scientific numbers and between point and period prevalences. That Snyder estimated several millions homeless and that period prevalence numbers are of the same magnitude is no validation of his point prevalence estimates.

The distinction between "political" and "scientific" numbers lies both in the methods by which each are generated and the uses to which they are put. "Scientific" numbers rest on a foundation of procedures that are accepted widely by the scientific community as yielding estimates that are valid. "Political" numbers are ones that are advanced publicly as supporting some set of policy measures, regardless of the means by which they were generated. Clearly, scientific numbers can become political numbers when they are used for political purposes. But political numbers are not automatically scientific whatever credibility may be given to them in the political arena or by the mass media. The advocates' estimates were never credible because they were not based on credible estimation procedures.

² I suspect that Snyder meant to provide a point prevalence estimates because his attacks on the HUD (HUD, 1984) point prevalence estimates made no mention of this issue.

That their point prevalence estimates made in the early 1980s are of the same magnitude as period prevalence estimates made later in the decade may be only an interesting coincidence.

Validity issues

All research efforts are flawed. The difference between good and poor research largely hinges on whether the flaws are fatal to the major focus of the research. In my view, there are no fatal flaws in Culhane's research, but there are several limitations which the reader should bear in mind. In particular, Culhane's estimates are of period prevalence for the homeless who use the public shelter systems of New York and Philadelphia, a coverage that is limited.

First of all, as Culhane and his colleagues correctly state, their estimates cover only that portion of the homeless of New York and Philadelphia who have made use of the public shelter systems of those cities in the years of time covered by his period prevalence measures. There are two additional components of the total homeless that are not covered, those using only the 15-17% of beds for the homeless located in private shelters and those homeless who do not make use of either public or private shelters. On any given night these omitted components along with those using the public shelters are mutually exclusive (or virtually so.) Over some period of time, however, the three components overlap to some unknown extent: Public shelter users may also on occasion use private shelters and/or sleep in non-shelter public places; and, those in private shelters or sleeping on the streets at any given point in time may also enter into one or more of the two complementary portions of the homeless. Whether Culhane's period prevalence estimates cover all persons in those cities who ever became homeless in a period depends on the extent to which there is mixing among components over time. If every person who becomes homeless enters the public shelter system at least once during a given period, then the period prevalence estimates based on public shelters will be unbiased. To the extent, that there are persons who become homeless in that period and never enter the public shelter system then these estimates are biased downward, i.e. under-estimate the homeless count for the period in question. Of course, given our current knowledge, there is no way to estimate how much, if any, bias exists³.

Second, in Culhane's calculations of turnover, an entry into the public shelter system is counted as an entry into the homeless state and an exit from the shelter system is counted as

³Some fragmentary knowledge does exist. For example, the Washington, DC Metropolitan Area Study (Dennis et al, 1993) estimates that 14-17% of the homeless in that area have never used shelters up the time they were interviewed.

an exit into the housed population. However, some of the entries undoubtedly are from the private shelters or from the un-sheltered homeless condition. Similarly, exits from the public shelter system can be entries into one or the other components of the homeless. To the extent that such exchanges between the three components occur, then turnover calculations are upwardly biased. There is abundant evidence (Dennis et al, 1993; Rossi, 1989) that such crossovers occur.

Third, it appears likely that the compositions of the three homeless population components differ. In both the Chicago and Washington DC studies (Rossi, 1989; Dennis et al. 1993) the street homeless were more likely to be older, suffering more often from substance abuse and mental illness and more likely to have been homeless for longer periods of time. It may be that the street homeless are persons more likely to be excluded from the shelter system⁴. I have no knowledge of the characteristics of New York's and Philadelphia's private shelters and their admissions criteria but it seems likely to me that they may occupy specialized niches and hence have clients with special characteristics. In any event, descriptions of the composition of the homeless population based on the component using public shelters may also be biased to the extent that the other components differ.

Fourth, every administrative record system makes errors in entering data. In addition, there may be errors in the data because some of those seeking to enter the system may give wrong information, for whatever reason. I believe that Culhane and his colleagues have done their best to eliminate errors that are detectable, especially those that can be found as "near matches" across records but I am sure that there are additional errors that cannot be easily detected by machine methods, as the authors undoubtedly would admit. The point is that there remain errors in the data consisting of individuals whose separate entries into the system are counted as incorrectly as the entries of distinctly different persons and that such errors bias estimates upwards by over-counting. It may be that such errors are so few that they can be safely ignored, but then again they might be quite numerous.

Fifth, there is the issue of generalizability. Philadelphia and New York are unique in being the only major cities with extensive public shelter systems. As Culhane has argued in another article (Culhane, 1992) shelter administrative policies, such as rules concerning length of stay, can affect shelter case loads and the mix of shelter clients. Shelter system capacity and occupancy rates vary from city to city (Burt, 1992). The point is that, at this time, there are no ways that we can assert that the processes shown for these two cities are mirrored more or less faithfully in other places. My own best guess is that with minor

⁴This point has more weight in discussing shelter systems that have the ability to deny entry to the substance abusers and mentally ill and hence is not applicable to New York whose public shelter system is required to admit all that apply.

variations from place to place we will find that period prevalence rates are magnitudes greater than point prevalence rates and that the homeless with disabilities will be found quite universally to be the long term homeless.

The import of the five validity issues discussed above is that there is a band of uncertainty of unknown size around Culhane's estimates. Furthermore, the band of uncertainty becomes larger if the estimates are viewed as applying to other cities. On the one hand, the coverage restriction suggests that they are biased downwards, a bias whose size depends on the extent to which the uncovered components of the homeless population cross over into the shelter population. On the other hand, cross-overs among homeless population components and data errors may exaggerate the size of period prevalence estimates and of turnover measures. In addition, the possible unique qualities of the two cities studied add additional uncertainties to Culhane's estimates.

The limitations enumerated above do not affect seriously the main points made in the Culhane article. If the band of uncertainty were to be reduced, it is highly likely that the corrections would not affect the magnitudes of the rates presented by the authors.

Calculating rates

The classical definition of a prevalence rate for some condition is:

The number of persons ever in some condition over a given period of time divided by the number of persons exposed to the risk of being in that condition.

Accordingly, the sizes of prevalence rates are affected by both the numerator and the denominator used in the calculations. Although not clearly stated in his article, Culhane apparently used the total 1990 Census populations of Philadelphia and New York as his denominators⁵, thereby implicitly defining those populations as the "at risk".

There are several issues concerning the choice of the total population of the two cities as the denominator: First, there is the question whether the homeless in the public shelter system are from New York City or from some larger area, say the New York metropolitan area. This issue does not arise with respect to Philadelphia because admission in that city's shelter system is contingent on showing evidence of previous residence in that city. To the extent that the catchment area of the New York City shelter system is larger than the city proper, prevalence rates may be somewhat over-stated.

⁵ When calculating prevalence rates for subgroups, e.g. Afro-Americans, the denominator is restricted to the total city populations of that group.

Second, there is the issue whether individuals or some other population unit, such as households or families, are at risk. In the case of single persons who ordinarily occupy their own dwelling units, the individual person as unit is quite applicable. But for others, particularly families who jointly occupy dwelling units, it may be more appropriate to consider families as the population units at risk. Because a child does not have any risk of becoming homeless that is separate from the risk of his or her family unit, prevalence rates can vary considerably. Another way of stating this issue is whether a family consisting of her mother and three children who move into a shelter should be considered a single instance of homelessness or as three instances?

It is not clear what the implication may be of using one base or another in calculating prevalence rates. I believe that a more appropriate base would be household units, counting single unattached persons as separate households and with matching definitions for the numerator. Because there are far fewer households than individuals, such calculations would yield higher prevalence rates, but there are also fewer homeless households with the result that the rates may also be smaller.

Policy implications

There are several features of Culhane's findings that appear to have important implications for homelessness policy. To begin with, the period prevalence rates show that homelessness over significant periods of time affects more people than the "average day" counts suggest. Second, they indicate that there may be two subgroups within the homeless population, persons who experience short term episodes and persons who are homeless for long periods of time. Third, as indicated in cross sectional studies, the long term homeless contain significantly more of the homeless who are afflicted by substance abuse and mental illness. I will take up each of these points.

If there is some flagging of interest and decline in sympathy for the homeless, as some claim, these new numbers might support a reversal in those trends. So many have been homeless over the past few years that the numbers support an impact larger than "commonly" believed. In addition, the short-term homeless may resemble more closely the most sympathy producing homeless, those who precipitously become unemployed and thus homeless after being "just a paycheck away from homelessness" over some period of time.

From what has been leaked to the press about the forthcoming Inter-Agency Task Force

report, the new period prevalence numbers generated by Culhane⁶ constitute one of the main arguments for increased appropriations for homeless programs. It is also rumored that President Clinton has found the new numbers persuasive and supports augmenting funds for such programs. In short, it appears that the period prevalence estimates have already entered into the policy arena and are being taken seriously by policy makers.

As a long-time advocate of applied social research, it is gratifying to observe scientific numbers becoming political numbers, hopefully without losing too much of their science cachet. In that last connection, I would like to see some muting of the message implicit in Culhane's article that the period prevalence numbers are somehow better than the point prevalence ones. Indeed, if the homeless policies advocated by this administration are designed to bolster the homeless shelter system, then the point prevalence estimates might be better for planning purposes.

A suggestion made by Culhane is that the existence of a very large number of persons who are only homeless for short periods of time supports the development of programs aimed at preventing short term stays in the shelter system. There is much merit to such a suggestion providing that the programs can be targeted with some precision at those who are at high risks of having a short term spell of homelessness.

Targeting programs is a critical aspect of program efficiency. A precisely targeted program is one which reaches all persons who should receive that program and does not reach any others. For example, Social Security old age benefits are fairly well targeted, reaching almost all eligible persons who are above certain age thresholds and few, if any, persons below those age thresholds. In contrast, the Sesame Street television program designed to stimulate the cognitive abilities of disadvantaged children also reaches many advantaged children and is poorly targeted. Of course, the targeting imprecision of Sesame Street is not of much concern because per capita costs of the program are small and achieving more precision likely would be very expensive, and possibly technically impossible.

Unfortunately, it is not at all clear whether targeting of anywhere near the desired level of precision in targeting programs directed those at high risk of homelessness can be accomplished. Because at the present time we do not have sufficient scientific knowledge about this group, it is difficult to devise a targeting procedure. For example, we know (by definition) that those who become homeless do so because they have lost access to a conventional dwelling unit: we know that they were among the housed. Accordingly, one preventive strategy would be directed at some subgroup in the housed population. We can

⁶Bruce Link's (1993) sample survey based period prevalence estimates are also cited. (See next section for a discussion of Link's approach.)

also surmise that they are poor; otherwise, most would simply find another dwelling unit after losing access to a current one. But the population of persons who are poor is very large, numbering in the millions⁷ and a program directed at the poor of whom only a very small proportion ever become homeless over the period of a year cannot be efficiently targeted.

If a preventive program is directed toward those who are likely to lose access to a conventional dwelling, the problem is how to easily identify those with a high probability of losing their homes. As far as I know, there is no way to easily target those highly vulnerable to homelessness. For example, using the housing courts to intervene before evictions might seem sensible except that few of those who become homeless do so through formal eviction, most either leaving a leasehold voluntarily or leaving an informal housing sharing arrangement with kin or friends.

In short, before a preventive program can be designed it is necessary to think through what should constitute the target population and how to reach that population in an efficient way. Preventive programs are not likely to be inexpensive; Hence precision in targeting is critical in keeping costs within acceptable limits.

In addition, there is the critical question concerning what should be the preventive intervention? Should such an intervention be directed at doing something with the housing arrangements of the short term homeless, perhaps through some rent subsidy program or, alternatively, through the direct provision of housing, as in the subsidization of SROs or in some other fashion? Another kind of intervention might be directed at income support for the very poor in the expectation that solving their income deficits would also solve their housing problems? Or, alternatively, should the program be aimed at providing housing search support?

An alternative to a preventive program would rely on the shelter system to provide the targeting and would be directed toward moving new entrants back into the conventional housing market as quickly as possible. This strategy is based on the idea that targeting people before they become homeless is so close to impossible that we would be better off waiting until the short term homeless come into the system and then aid them to leave. The targeting cannot be precise because some of the persons entering the system are destined to become chronic homeless and it may be difficult to identify the short term at entry. Of course, it may turn out that the best indicator of long term homelessness is the ability to benefit from programs aimed at accelerating leaving homelessness. Furthermore, not all

⁷For example, in 1989 there were about 6.4 million unattached single persons and single parents whose income was 50% or less of the poverty line and about 14 millions in that group who were at the poverty level or below.

persons who become homeless enter the shelter system: Those who sleep in public places will be missed.

An "accelerated leaving program" might provide persons entering the shelter system a long term low interest loan (or even gift) covering the first two month's rent and needed security deposit contingent on finding a place to rent within four weeks. Another version of this program might rely on longer term housing subsidies in the form of vouchers.

A major drawback to preventive programs targeted to persons first entering a shelter system is that such programs may act as incentives enticing persons to enter the system to receive benefits otherwise unavailable. Culhane cites anecdotal evidence that some homeless families in New York "become" homeless in order to receive more easily housing vouchers. Another drawback may be that shelters have only partial coverage of the homeless.

In sum, it is not clear what should be the programs aimed at the short term homeless nor is it clear that such programs can be easily or efficiently targeted.

Another set of policy implications centers around what policies ought to be formed concerning the long term homeless. If preventive programs or accelerated leaving programs are successful, the shelter systems of our local community increasingly will become shelters for the chronic, long term homeless. Accordingly, the shelters will also become increasingly filled with those with the serious disabilities of mental illness, alcoholism and severe drug abuse to the extent that shelters will admit such persons⁸. Shelters are not equipped ordinarily to provide substance abuse treatment or therapy for the mentally ill. How to move such persons into appropriate treatment facilities presents a severe problem for policy formation. Such policies might require changes in legislation concerning individual rights to refuse treatment. At the least expansions changes in the capacities of substance abuse and mental illness facilities may have to be made.

The main point in this section is that the policy implications of the findings presented in Culhane's paper are unclear.

Implications for further research

Both Philadelphia and New York were forced into running municipal shelters by consent decrees arising out of class action suits that affirmed the rights of the homeless to shelter. It

⁸With the major exception of the public shelter system of New York City, most shelters attempt to exclude the obviously alcoholic, drug abusers and mentally ill. In practice these policies mostly mean that persons who seek admission are excluded if at the time they appear to be clearly under the influence of alcohol or drugs or are acting bizarrely.

is doubtful that any additional local political jurisdictions will attempt to set up and run extensive municipal shelters systems. Accordingly, it seems highly unlikely that computerized shelter data bases will exist in other places because shelters in other localities are not likely to develop centralized management information systems. The shelter based period prevalence measures that Culhane has calculated seem unlikely to ever exist for any other major local political jurisdictions. The prospects for a national data system based on data derived from shelter admissions are therefore dim. If a national data system is desired, it is likely we should look elsewhere.

Another approach to measuring the prevalence homelessness, mentioned briefly in the article, is worth considering as an alternative approach to obtain national measures of period prevalence. Using sample surveys of households, the approach simply asks probability samples of persons about past experiences with homelessness. Asking about episodes of homelessness last year provides the base numbers for an annual prevalence rate and asking about past homeless episodes over longer periods of time will do the same for longer period prevalence rates.

Bruce Link (Link, 1993) has used this approach to calculate national life-time and five year period prevalence rates. Using "random digit dialing" methods, some 1500 households were contacted by phone. Link's approach had the advantage of covering all places in the United States-including rural areas-, covering all components of homelessness-including those using any kind of homeless shelter and the street homeless, but the disadvantages of not covering persons living in households which do not have telephones⁹. There may also be problems with the accuracy of recall¹⁰ and with how respondents interpreted homeless episodes. But, the major advantage of the household survey approach is that it does not rely on the existence of a well-run administrative record system and hence can provide period prevalence estimates for the country as a whole and for all localities and regions. Of course, the sample survey approach can also be used on the local level as well, providing period prevalence rates for, say, Chicago or Los Angeles.

I believe that it is worthwhile investing in the refinement of the sample survey approach. There are several obvious ways in which future researches may improve on Link's approach.

First, area probability sample designs along with the use of face-to-face interviewing can cover all households, including those without telephones, and those living in SROs and other

⁹In particular, this means that those who were homeless at the time of the interview were not covered, as well as those who had been homeless in the period under study but had either died or emigrated before the interview period.

¹⁰Survey researchers have noted when asked to recall past events, respondents tend to "telescope" time, reporting events that occurred further back in the past as having occurred more recently.

"group quarters". Second, methods development research would be able to improve instrumentation to the point at which retrospective recall data can be relied upon as accurate enough. In addition, such development work can standardize the meaning of homelessness to ensure that respondents all report their bouts of homelessness in the same way.

I believe that the way to go to obtain national period prevalence estimates is to develop technically improved retrospective recall measures based on national sample surveys. Indeed, a few questions added on to ongoing large scale periodic surveys, such as the Current Population Survey, would provide detailed population breakdowns and eventually a time series in which changes in the size and composition of the homeless could be monitored.

Conclusion

Culhane and his colleagues clearly have made an important and dramatic contribution to our further understanding of the nature of contemporary homelessness. At any one point in time, being homeless is a rarely found condition, but over time the cumulative homeless experience affects significant proportions, as much as 3% over a five year period for New Yorkers. These estimates have been dramatic enough to have already influenced the policy making process. However, as an approach to obtaining period prevalence estimates for the country as a whole, a strategy based on public shelter data bases has poor prospects. A more promising approach is to use sample survey based retrospective reports on past homeless experiences, more easily implemented and generalized to the nation as a whole.

Author

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**WRITTEN TESTIMONY ON THE MCKINNEY ACT HOUSING PROGRAMS,
H.R. 3768 AND H.R. 3838**

**SUBMITTED BY THE COUNCIL OF STATE COMMUNITY
DEVELOPMENT AGENCIES (COSDA)**

TO BE ENTERED INTO THE RECORD

OF THE

**HOUSE SUBCOMMITTEE ON HOUSING AND COMMUNITY
DEVELOPMENT**

Introduction

The Council of State Community Development Agencies (COSCDA) is pleased to provide testimony to the Subcommittee on Housing and Community Development on the McKinney Act housing programs, H.R. 3768 and H.R. 3838. COSCDA is a national, membership based organization which represents 47 state executive agencies that administer various Federal and state funded programs in the area of housing, community development and economic development. Most of our members manage the Emergency Shelter Grants (ESG) program and many others manage the Supportive Housing Program.

The following testimony was prepared prior to receipt of the release of the Administration's bill, so we cannot comment specifically on the bill's provisions. Any of the following testimony which references the Administration's homelessness initiatives is based solely on brief outlines recieved from the U.S. Department of Housing and Urban Development (HUD) on its reorganization of the McKinney Act housing programs and the proposed doubling of its homelessness budget.

MCKINNEY ACT HOUSING PROGRAMS

Consolidation of the Programs

The McKinney Act housing programs have provided a much needed resource for the states to provide homeless assistance within their jurisdictions. We applaude the creation of the programs and the financial support they offer.

COSCDA has historically supported consolidation of the McKinney Act housing programs. The reasoning behind this is three-fold: 1) We feel that too much time and effort is now spent applying for funding under the various McKinney Act housing programs. The funding process is highly competitive and affords little chance of being awarded to small communities and rural areas who have inadequate resources to effectively draft an application and which generally do not compete well in national competitions because of this. Many states have spent valuable hours and resources preparing applications to HUD for the competitive funds awarded under the McKinney Act, only to have their applications denied and their projects not funded. The states have a need for homeless assistance, but the funding process is too competitive to allow for stable funding. Consolidation of the programs would allow for a more equitable allocation of the program funding. 2) As it stands now, the programs have differing application cycles and application processes, including eligibility requirements. It would make sense to "streamline" the process by consolidating the program requirements and funding cycles into one succinct program and single award cycle. This coordination will facilitate the operation and service delivery system of the programs and make the entire process much easier. 3)

Consolidating the programs based on a formula distribution of funds would ensure a stable commitment of resources for a wider range of recipients. It would allow **all** states to receive an annual allocation of funds to assist in the alleviation and prevention of homelessness. In the same respect, having an annual formula allocation in place would allow recipients to effectively plan for and to address the issue of homelessness. There are multiple causes to homelessness and multiple responses to address the problem, especially through the various McKinney Act housing programs. Integrating the programs into one consolidated program would assist the states in planning effectively to address the problem of homelessness. A consolidated planning effort will allow the States to direct the funds where there is the most need and greatest demand.

The McKinney Act Housing Programs and the States

COSCDAs members primarily utilize the Emergency Shelter Grants (ESG) Program. The program is easily utilized because the funds are distributed according to a formula allocation. **All** of the states are able to receive some portion of the funding. The program has been a very valuable resource for the states in their effort to alleviate homelessness. The program has allowed the states to assist numerous homeless individuals and families who otherwise may have not received assistance without the availability of these program funds. Many of the states feel that the ESG program is relatively easy to administer and is the **only Federal program** which has given the states the annual resources to begin to assist their homeless populations. ESG, however, is not the only program that addresses homelessness. Some of our members have utilized the Supportive Housing Program and the Shelter Plus Care Program. A few of our members have utilized the Section 8 Moderate Rehab Program for SROs, the HUD-Owned Single Family Property Disposition Program and the Title V Surplus Federal Property Program.

The ESG Program and the Supportive Housing Program, together, provide essential monies to the states to fund emergency and transitional housing programs and services for the homeless. With ESG, states are able to renovate and rehabilitate facilities for use as emergency shelters and to provide funds for essential shelter operating costs. The Supportive Housing Program allows states to develop supportive housing facilities and services for the homeless, including initiatives to transition persons into permanent housing. Since the ESG program primarily provides emergency relief, many of COSCDA's members view the program as a temporary solution in addressing homelessness. Instead, supportive housing and services are needed to transition persons into independence and self-sufficiency. COSCDA strongly supports prevention initiatives which will provide eventual permanent solutions to homelessness.

Although the ESG program is relatively easy to administer and has been an effective tool in addressing homelessness, our members have suggested the following legislative amendments to the program:

Suggested Amendments

- ESG:**
- 1) Eliminate the caps for prevention and essential services.
 - 2) Reduce **or** eliminate altogether the match requirement for acquisition, rehabilitation and new construction of emergency homeless shelters. Many states have limited resources due to budgetary constraints and do not have the funds to provide the match.
 - 3) Increase the time period within which prevention funds may be used, from 180 days to one year, so that funds can be used during the winter months, which is the most critical time for most homeless providers.
 - 4) Reduce the required monitoring and compliance requirements **or** provide administrative funds to hire additional staff to ensure that these requirements are met. Many state agencies are not equipped with the necessary staff to undertake the monitoring and compliance requirements of the program. Greater attention to the program is lost because of these burdensome administrative requirements.
 - 5) Increase the deadline in which a recipient must complete the competition and award of program funds. This process can be very time consuming and staff intensive and the current 65 day time limit in which to complete this process is not sufficient.

The states desire to utilize the Supportive Housing program as well as the remaining McKinney Act housing programs on a greater level, but are not always awarded funding under the programs. The programs are very competitive and the resources too low for most applicants to be awarded funding. As stated earlier, many states spend countless time and effort applying for the programs, only to have their applications rejected. It is an extremely frustrating process. All of the states need funding to assist them in their effort of alleviating and preventing homelessness. It appears, however, that only the most skilled grantwriters are awarded the funding.

Consolidation of the programs would address this problem by allowing an equitable distribution of the program funds.

The Administration's Homelessness Agenda

Homelessness is an issue which deserves great attention and focus. Attention to the problem involves the appropriation of adequate, stable annual funding and the active involvement, coordination and cooperation between the three levels of government: Federal, State and local. States are important in the implementation and delivery of funds and services to assist the homeless. Many states have all ready developed and implemented numerous initiatives on their own to combat homelessness within their jurisdictions. States are in a unique position to assist in the effort, as they are closely linked with both the Federal and local governments. Any programs developed at the Federal level should involve the States' input and guidance. In its proposed budget, HUD mentions forming a partnership with local governments and private, nonprofit groups, but does not give consideration to the States. This may have been an oversight on their part, however, we are concerned about the omission and would like to stress to you the importance of the states in the process of alleviating homelessness in America and hope that the States will be give full consideration as a partner in every Federal effort.

HUD proposes to "reorganize" McKinney by consolidating several homeless programs, including ESG and the Supportive Housing program, into one new program called the Homeless Assistance Grants program. As stated previously, COSCDA supports consolidation of the McKinney Act housing programs to the extent that the consolidation will allow for a more streamlined process and a more equitable distribution of funds through a formula based allocation and most importantly, provide a consistency to permit effective collaboration and intergration of services. To that accord, we support the Administration's efforts to streamline the programs and initiate a formula based allocation system.

If the McKinney Act housing programs are consolidated and the funds provided to recipients on a formula basis similar to that of the CDBG program, the states would like to see a small portion of the allocation used for administrative costs. This will allow the states, many of whom have few administrative resources, to hire staff to administer the program.

Lastly, COSCDA supports the Administration's "continuum of care" system that is proposed to fill the gaps of the current system by transitioning homeless persons to full independence. COSCDA members would, however, like for the Administration to focus on providing funding for existing homeless programs, many of which serve the homeless very well, and not for the creation of new, short-term "innovative" homeless initiatives.

H.R. 3768

COSCD A recently surveyed its members on the two proposed amendments contained in this bill. The first amendment would transfer the Emergency Food and Shelter Program from the Federal Emergency Management Agency (FEMA) to the U.S. Department of Housing and Urban Development (HUD). The second amendment would create the Homeless Housing Assistance and Prevention Program, which is proposed to replace the existing Emergency Shelter Grants Program and the Supportive Housing Program.

Responses to the transfer of the Emergency Food and Shelter Program from FEMA to HUD was varied. A slight majority (59% of those surveyed) agreed with the transfer of the program to HUD, while 41% of those surveyed did not. Many respondents who agreed with the transfer commented that placing all of the homeless programs under one agency would assist with service delivery coordination. Those who did not agree with the transfer commented that the program operates effectively now and should not be moved to a new agency, where the effectiveness of operation could be disrupted. The members overwhelmingly agreed that the proposed appropriation of \$50,000,000 was much too low and must be increased. Many support the funding level of \$130,000,000 proposed by the Administration.

COSCD A strongly supports the concept of consolidation which is stressed in the proposed Homeless Assistance and Prevention Formula Grant Program. Our members view consolidation as an equitable solution to the distribution of the McKinney Act housing program funds. Consolidation at any level is a step in the right direction, however, the general consensus among members is to have all of the McKinney Act housing programs consolidated and distributed by a formula allocation. States need consistency if they are to focus on addressing the problem of homelessness. Many members agree that consolidation will provide a fairer allocation of funds to all of the states by providing a direct, annual non-competitive allocation. This direct funding will especially enable the States to assist smaller communities and rural areas to address their homeless needs because of the non-competition with the more urban states for funds.

All of the respondents agree strongly that the proposed appropriation of \$380,000,000 for the Homeless Assistance and Prevention Formula Grant Program is grossly inadequate to meet the needs of the homeless across the nation. Although a particular appropriation was not agreed upon, COSCD A supports a more significant appropriation, more in line with the Administration's proposal.

Our members strongly disliked the proposed formula split of 80/20, which designates 80% of the funds directly to metropolitan cities and urban counties and the remaining 20% to the States. Majority opinions were mixed as to what the formula split should be. **At the least**, the consensus was that consideration should be given to a 70/30

formula allocation. **Most importantly, regardless of the split, States want to be able to use the funds statewide as in the HOME Program. They are strongly opposed to a balance of state distribution scheme.**

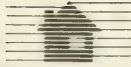
The respondents strongly agreed with the proposed eligible activities contained within the bill (which focused on homelessness prevention, emergency shelter, and supportive housing), but felt the activities are not flexible enough and must be expanded further to include such activities as essential staff salaries, operating costs, new construction, assertive outreach, job training, and day care assistance.

Although COSCDA supports the concept of consolidation which is proposed under this program, many members agree that this proposed program is not inclusive enough. It does not propose adequate funding to meet the needs of the nation's homeless, the proposed activities are not flexible enough and it does not propose a large enough share for the states. For these reasons, the Administration's proposal is favored over this bill.

H.R. 3838

We recognize the difficulty you face in deciding on the funding levels of the various programs which fall under your committee's auspices. We are in support of the funding levels proposed under H.R. 3838 for the various McKinney Act programs. Your recommended appropriations increase the funding levels for both the Emergency Shelter Grants Program and the Supportive Housing Programs above their 1994 levels. Your recommended appropriations signify your active support to assist in the alleviation of homelessness across America. We thank you for your leadership and for your support.

COSCDA would have liked to have seen a proposal for consolidation of the McKinney Act housing programs within H.R. 3838, for the reasons explained within the testimony.



National Coalition for the Homeless

Testimony for the

HOUSE SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT

May 9, 1994

Fred Karnas, Jr., Ph.D.

Executive Director

National Coalition for the Homeless

I appreciate the opportunity to submit this testimony, addressing the housing provisions of the Stewart B. McKinney Homeless Assistance Act, on behalf of the National Coalition for the Homeless (NCH). I hope these comments will prove useful as the Subcommittee continues work on the reauthorization of the National Affordable Housing Act. NCH is the nation's oldest and largest grassroots advocacy group working to end homelessness. The comments contained in this document reflect input from our contacts around the country and our board of directors, consisting of 48 service providers, advocates, academicians, and homeless and formerly homeless people from 31 states.

Introduction

There is little debate that homelessness continues to be one of our nation's most pressing problems. Research recently released by Columbia University researcher, Bruce Link, suggests that as many as 5.6 million Americans spent at least sometime literally on the streets between 1985 and 1990. Since the study did not include children, the actual number probably approaches 7 million, and when you count people who have doubled up to avoid being literally on the street the number approaches 10 million.

The importance of this prevalence data is that it reveals the link between poverty and homelessness. While the number of Americans who are homeless on any given night may be less than 1 million, many more millions of Americans live on the edge, slipping in and out of homelessness for relatively short periods of time, as economic, health, family, and personal crises push them over the precipice. This new information underscores the need for prevention programs, and points out the reality that while their needs are critical and must be addressed, the chronically homeless represent only a fraction of the total population of homeless people.

As we struggle to address the problem of homelessness, two seemingly contradictory phenomena are occurring in cities across the U.S. in 1994. First, many cities are taking a much more hostile approach to addressing the problem of homeless people on their city streets. Frustrated by their lack of resources to address the root causes of poverty and homelessness, or pressured by the downtown business community to make the problem vanish from their doorsteps, many cities have enacted an array of new ordinances and increased police activities in the mistaken belief that by making it harder to remain on the streets, at least in the central business district, homeless people will disappear..

Seemingly contradicting this new hostility are a number of polls that suggest that the general public continues to support efforts to address homelessness and, in some cases, would be willing to pay more taxes to ensure the problem is being dealt with.

It is in this socio-political environment that we make our comments regarding the reauthorization of the HUD McKinney programs. We are confident that the general public is supportive of moving forward with bold initiatives to bring an end to this American tragedy. We are, however, concerned that local public officials, are growing weary of their inability to successfully address the homelessness on their city streets and are angrily using police force to make the problem look like it has gone away.

Authorization Levels

While there has been a great deal of discussion in recent weeks about the Administration's proposals to consolidate and streamline programs, it is important to recognize that only so much can be done without additional resources. Consolidation and coordination too often are smoke screens for making do with, or reducing, what we have fought very hard over the years to obtain. Fortunately, Secretary Cisneros recognizes that consolidation alone will not end homelessness and he is proposing significant new resources for the HUD McKinney programs. However, even the proposed new resources will not significantly impact homelessness without concomitant increases in the mainstream housing programs which ultimately will provide the permanent housing so many poor Americans desperately need.

We feel strongly that existing mainstream "safety net" programs must be expanded to meet the growing needs of poor Americans and NCH would recommend a national housing entitlement as a basic building block for bringing an end to homelessness.

However, we recognize that until these goals become reality we must continue to undergird the emergency services system funded through the McKinney Act. Thus, it is imperative that the Stewart B. McKinney Homelessness Assistance Act be reauthorized to ensure that basic, safe shelter and services are available. McKinney programs provide a critical lifeline for hundreds of thousands of homeless people.

Thus, NCH recommends that the authorization level for the HUD McKinney programs be raised to \$2 billion as follows:

ESG	\$200 million
Supportive Housing	\$500 million
SRO Mod Rehab	\$500 million
SAFAH	\$150 million
Shelter + Care	\$450 million
Safe Havens	\$150 million
Rural	\$ 50 million

Although, as will be pointed out below, we have some serious reservations regarding the proposed consolidation, we would argue that if the consolidation takes place, the total program, minus the Section 8 set asides be authorized at \$2 billion.

NCH also recommends that the authorization level for the Emergency Food and Shelter program be raised to \$200 million.

There is no doubt that this is a significant increase in a time of scarce resources, but we are literally talking about life and death for millions of American men, women, and children.

Consolidation of McKinney Programs

Historically, NCH has opposed consolidation and block-granting of programs because they often become easy targets for budget cutting, and too often in the consolidation process the targeted purposes of the individual programs are diluted to the detriment of the special populations or special needs they were intended to serve.

We do see some merit, however, in the Clinton Administration's proposed consolidation and formula granting of the HUD McKinney programs. There is little doubt that formula grants would provide more even coverage of the nation and ensure that those areas with the greatest need (as defined by the formula) received the most funding.

We do have some serious concerns however:

Formula The key to the success of the consolidation effort is the formula. It is very difficult to analyze the Administration's proposal at this point without projections of the financial ramifications of implementing this program. The formula should be published for comment and analyzed both at current funding levels and the Administration's budget request level to determine what the real impact of moving to the formula grants will be to all communities.

Board Selection A key element of the new proposals is the development of local "boards" which will have significant responsibility for determining how local funds will be distributed. While we are pleased that the administration proposals call for involvement of homeless people, advocates and service providers, we are concerned about who will be selecting the participants on the board. This concern emanates from the aforementioned hostility that seems to be developing in many cities regarding homeless people and the programs that serve them. If mayors are given the authority to appoint these boards, the boards may very well reflect the anti-homeless sentiment which is pervading local government in many localities.

Related to this is the tendency of local government to develop and support programs which reach out to the segment of the homeless population with the least problems, leaving the hardest to reach at the mercy of the new repressive police actions. Mayors would be very tempted to appoint board members who support this bias.

Finally, because many cities have been somewhat recalcitrant in their response to homelessness, some service providers have been forced to become strong advocates for the people they endeavor to serve, often having to confront local government. If city officials establish these boards, these activist providers stand a very good chance of being left out of both the decision-making and the receipt of funds.

Maintenance of Effort While NCH is pleased that there is a strong maintenance of effort requirement in Administration's proposals, it is unclear what happens if a jurisdiction opts to turn over responsibility for local planning and implementation to a non-profit. Will that relieve the jurisdiction of maintenance of effort responsibility? If so, doesn't it seem likely that cities may choose this option, undermining the goal of coordination with other larger programs (HOME, CDBG, Public Housing) and eliminating or reducing the local dollars which were previously available to assist homeless people.

Capital Programs NCH is also concerned that the major HUD McKinney capital programs stand to be lost in a consolidation and formula grant program. Because of the limited resources and the tremendous demand, cities will be tempted to spread their formula grants as far as they can, rather than focus large sums of money on multi-year projects such as SROs.

Also, while it appears rural areas, in general, stand to gain from a formula grant program, the sums that they will receive will not be equivalent to those that some rural projects received under the competitive process. Thus, larger capital projects will be impossible to implement in small communities.

Non-profit service delivery Over the last decade, with a few notable exceptions, efforts to end homelessness at the local level have been driven by the non-profit community. While the Administration proposals call for at least 51% of the funds to go to non-

profits, we think that the threshold should be much higher.

Based on these concerns NCH would make the following recommendations:

Outside monitoring process Because there is so much concern regarding the implementation of the formula program, ranging from the selection process for board members, to maintenance of effort questions, **NCH is recommending that any legislation adopting the formula concept include a requirement for outside monitoring of the process to ensure that citizen participation requirements are met, advocacy oriented non-profits are not by-passed, and linkages to city resources and other federal programs such as HOME, CDBG, and public housing are made.**

50/50 formula-competitive split First NCH recommends that the formula program be phased in. **We are recommending that at least 50% of the HUD McKinney funds be made available on a competitive basis and the remainder be used to implement the formula programs.** After two complete cycles the formula program should be evaluated to determine the merits of maintaining the same split program, going to a full formula program or returning to the fully competitive program.

Timing of implementation NCH is greatly concerned that it will be very difficult to implement the new formula program in a single fiscal year. This concern is based the time required to develop and receive comments on new regulations, and the potential difficulties which could be encountered in implementing the formula program planning structures at the local level. **Thus, NCH recommends that funds be set aside for local planning (to establish boards and create the local plan) in FY95 and that efforts be made to ensure that regulations, and local structures are in place so that the program can be implemented as quickly as possible in FY96.**

Retain Rural Program While there is no doubt that rural areas will do better under a formula program which gives them a much greater chance of receiving some funds, it is also true that the funding will be so small that there will not be any opportunity to embark on major capital projects. **Thus, NCH is recommending that rural program, now incorporated in the Supportive Housing program be retained outside the formula program to provide rural communities, on a competitive basis, the opportunity to obtain capital funds for major projects.**

70/30 Non-Profit-Public Agency split As was mentioned above, the bulk of the efforts to address homelessness in the last decade have been undertaken by non-profits. They tend to be more efficient in their fund expenditures, they have the ability to lure private and grant resources not available to public entities, and they are usually more responsive to grassroots community needs. **Thus, NCH is proposing that at least 70% of the funds available under the formula grant go to non-profits.**

Innovative Program

NCH is not opposed to HUD having a pot of discretionary money for the development of model projects across the nation. **However, we do feel that there ought to be some minimal guidelines set for how funds can be expended, and how they are to be accessed and how they would supplement or be different from the formula program criteria.**

Emergency Food and Shelter Program

The Clinton Administration is proposing that the Emergency Food and Shelter Program, now located at FEMA be transferred to HUD. **NCH is opposed to the transfer.** The EFS program is a popular, effective and efficient program at the local level. It makes no sense to move this program if it is to be run in the same manner as it currently is. If the long-term intent is to dismantle the program and incorporate it in the formula program at some point in the future, we feel strongly that the incorporation should not take place until the formula program completes two full cycles and has been evaluated.

Transitional Housing

After several years of developing a new housing type called "transitional housing" many service providers are recognizing that the transitional needs of families and individuals vary so greatly that establishing arbitrary 24 month timelines is often counter productive. It has also been learned that the destabilization which occurs as people are forced to move out of transitional housing often provides a major setback for a family or individual.

Thus, NCH is proposing that construction or renovation of transitional housing no longer be an eligible activity in the HUD McKinney programs. Rather, funds should be used to support permanent housing with transitional services, which are removed as the family or individual no longer needs them. This allows the family or individual to maintain a stable residence.

Empowerment

NCH feels strongly that homeless and formerly homeless people must have a say in the operation of programs which affect their lives. Therefore, in 1992 we supported legislative language which would reward funding proposals submitted from programs which 1) include homeless/formerly homeless persons on their decision-making boards and/or 2) employ homeless/formerly homeless people.

Programs fulfilling the employment component of this requirement would be required to pay at least minimum wage and confer to the homeless/formerly homeless employee the same benefits as to all other employees.

We were pleased that Congress saw fit to include some language encouraging inclusion of homeless people in decision-making and as employees of HUD McKinney grantees.

However, we feel the language should be stronger and more encompassing. Such language should include "a significant number of homeless/formerly homeless people represented on the decision-making boards" and that minimum wage be clarified as "full cash minimum wage" to ensure that homeless people are not exploited by those service programs which calculate minimum wage to include credit toward room and board costs.

Conclusion

The reauthorization of the McKinney Act and the National Affordable Housing Act are important steps in the battle to end homelessness, but the battle will not be won until there is real commitment to focusing our nation's vast resources on meeting the needs of those who, due to economics and poor health, are blocked from participating in mainstream American life. Every American should have a right to safe, decent affordable housing; access to health care; and a job that pays a living wage. Sadly, until that truly becomes a national priority, we will continue to see the lives of millions of our fellows citizens destroyed by homelessness.

APPENDIX

May 5, 1994

May 5, 1994

Reauthorization hearing on the FHA

Opening Statement

Chairman Henry B. Gonzalez

Today we are holding the seventh series of hearings on the reauthorization of federal housing programs which are under the jurisdiction of the Subcommittee on Housing and Community Development, and included in H.R. 3838, the "Housing and Community Development Act of 1994".

I introduced H.R. 3838 with 20 original co-sponsors on February 10, 1994 and subsequently introduced the Administration's bill by request, H.R. 4310, the "Housing Choice and Community Investment Act of 1994", on April 28th. H.R. 3838 reauthorizes the current single and multi-family programs, and H.R. 4310 includes initiatives that expand existing programs and create new programs ranging from revitalizing distressed neighborhoods to conducting risk sharing programs with state financing agencies.

I hope that today's testimony will address those initiatives that are designed to reauthorize the Federal Housing Administration programs from the perspective of their primary users. While I expect the news to be favorable about the solvency or stability of the insurance funds, and I applaud HUD's initiative in enhancing the role of the FHA, I want to be certain that the existing and proposed programs will continue to serve a broad range of low and moderate income homebuyers, currently under-

served in the private market, and will not place undue risks on the insurance funds.

As far as the multi-family housing issues, I will listen with interest as the witnesses describe their ideas about this generation of the preservation program for the section 8 new construction and substantial rehabilitation projects. There are some 850,000 units at risk. Fortunately, as I understand it, most owners would prefer to continue as owners of affordable housing. Our challenge is to come up with a program which is balanced for the owners, the tenants, and the federal government without the complexity and tremendous cost of the Title VI preservation program.

I also note that the Administration has once again proposed certain cost savings provisions for the preservation programs. I am concerned that they are "penny wise and pound foolish" and will hasten the loss of affordable housing. The Administration's proposals to limit section 8 annual adjustment factors and rents may be similar in effect as well as raise legal questions. I am interested in the witnesses comments about these proposals and about the cost issue in general.

I look forward to the testimony.

LUIS V. GUTIERREZ

4TH DISTRICT, ILLINOIS

COMMITTEE ON BANKING,
FINANCE AND URBAN AFFAIRS

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(312) 509-0998**Congress of the United States****House of Representatives****Washington, DC 20515-1304****OPENING STATEMENT****CONGRESSMAN LUIS V. GUTIERREZ****SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT****MAY 5, 1994**

MR. CHAIRMAN, I AM GLAD YOU ARE HOLDING THIS HEARING TODAY. THE FHA PROGRAMS AND CURRENT MULTI-FAMILY PRESERVATION PROGRAMS ARE IMPORTANT TO PROVIDING AFFORDABLE AND DECENT HOUSING TO LOW-INCOME FAMILIES -- FAMILIES WHERE BOTH PARENTS ARE WORKING YET ARE IN NEED OF AFFORDABLE RENTAL HOUSING OR NEED ASSISTANCE IN PURCHASING A HOME. THEREFORE, CHANGES, SUCH AS THOSE PROPOSED BY HUD, DESERVE CAREFUL CONSIDERATION AND DISCUSSION BEFORE THEY ARE ADOPTED.

I HOPE OUR WITNESSES CAN ADDRESS THE PROBLEM OF EXPIRING SECTION 8 CONTRACTS. THIS IS AN ISSUE THAT IS OF GREAT CONCERN TO THE CITY OF CHICAGO AND MORE IMPORTANTLY, TO THE MANY SECTION 8 RECIPIENTS IN MY DISTRICT AND IN DISTRICTS THROUGHOUT THE CITY.

ADDITIONALLY, THE SECRETARY'S PROPOSAL TO RAISE THE MAXIMUM DOLLAR LIMITATION FOR FHA SINGLE FAMILY MORTGAGES RAISES SOME SERIOUS CONCERNS. I HAVE NO PROBLEM WITH THIS ADMINISTRATION WANTING TO INCLUDE MORE PEOPLE IN THE PROGRAM. HOWEVER, I WANT TO MAKE SURE THAT THE INCLUSION OF MORE MODERATE INCOME INDIVIDUALS DOES NOT PRECLUDE MORE AGGRESSIVE OUTREACH AND INCLUSION OF LOW-INCOME INDIVIDUALS.

I AM ALSO VERY TROUBLED BY THE ADMINISTRATION'S PROPOSALS WITH REGARD TO LIHPRHA. I BELIEVE THAT IF ENACTED, THESE PROPOSALS COULD LEAD TO WIDE SCALE DISPLACEMENT OF TENANTS AND YET NOT RESULT IN ANY COST SAVINGS TO THE FEDERAL GOVERNMENT.

CHICAGO IS HOME TO THE VERY FIRST BUILDING TO BE SOLD UNDER THE LIHPRHA PROGRAM. LIHPRHA HAS BEEN TREMENDOUSLY BENEFICIAL IN PRESERVING CRITICALLY NEEDED AFFORDABLE HOUSING IN CHICAGO COMMUNITIES WHERE LOW-INCOME HOUSING IS IN SHORT SUPPLY DUE TO GENTRIFICATION.

THUS FAR, OVER 1,600 UNITS OF HOUSING HAVE BEEN PRESERVED IN ONE AREA OF THE CITY ALONE, BUT IF HUD'S PROPOSED DECREASE IN THE FEDERAL COST LIMIT IS ADOPTED, HUNDREDS OF UNITS COULD BE REMOVED FROM THE AFFORDABLE HOUSING INVENTORY. IT WOULD EFFECT MANY BUILDINGS INCLUDING ONE IN MY DISTRICT WHERE THE OWNER AND TENANTS ARE CURRENTLY TRYING TO NEGOTIATE A CONTRACT WITH HUD IN ORDER TO PRESERVE ITS AFFORDABILITY. THIS BUILDING AND MANY OTHERS ARE EXACTLY THE BUILDINGS LIHPRHA WAS INTENDED TO SAVE. THEY ARE LOCATED NEAR JOBS, PUBLIC TRANSPORTATION, AND GOOD SCHOOLS -- ELEMENTS CRITICAL TO KEEPING PEOPLE IN HOUSING AND OFF WELFARE.

THEREFORE, I HOPE TO WORK WITH HUD AND WITH YOU, MR. CHAIRMAN TO ENSURE THAT THE LIHPRHA PROGRAM WORKS IN A WAY THAT IS BOTH COST-EFFECTIVE AND VALUABLE TO LOW-INCOME PERSONS EVERYWHERE. THANK YOU, MR. CHAIRMAN

STATEMENT OF THE
NATIONAL ASSOCIATION OF HOME BUILDERS
ON THE FEDERAL HOUSING ADMINISTRATION'S
SINGLE-FAMILY HOUSING PROGRAMS
BEFORE THE
SUBCOMMITTEE ON HOUSING
AND COMMUNITY DEVELOPMENT
COMMITTEE ON BANKING,
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UNITED STATES HOUSE OF REPRESENTATIVES
MAY 5, 1994

STATEMENT OF THE
NATIONAL ASSOCIATION OF HOME BUILDERS
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UNITED STATES HOUSE OF REPRESENTATIVES

MAY 5, 1994

Chairman Gonzalez, Mrs. Roukema, Members of the Subcommittee:

I am Dennis Penman primarily, a single family homebuilder from Buffalo, New York. I build low-income single family and multi-family housing, and I use FHA, VA, and other housing programs. I am well aware of the importance that Federal programs have in assisting first time homebuyers to realize the dream of homeownership. On behalf of the more than 170,000 member firms of the National Association of Home Builders, I am grateful for the opportunity to appear before you on the question of revitalizing the Federal Housing Administration.

As a member of NAHB's Federal Government Affairs Committee, and its Past Chairman, and a life Director of NAHB's Board. I am well aware of the controversies that have surrounded the FHA program in recent years. NAHB members are also well aware of, and greatly appreciate, the time and dedication that this Subcommittee, its Chairman, and its highly professional staff have given to the issue. Mr. Chairman your commitment to affordable housing is not only well known, but deeply appreciated. Thank you for calling these hearings as well as, your recent hearings examining the impact that lumber price increases have on housing affordability. I would also like

to acknowledge the support and contribution of the ranking member, Representative Marge Roukema has made to housing. Her diligence in fighting any changes in the mortgage interest deduction is not only appreciated by NAHB but, by homeowners as well.

Our testimony today focuses only on the single-family provisions contained in the Chairman's Bill, H.R. 3838, and the Administration's Bill, H.R. 4310. Mr. Chairman, may I also wish you a belated Happy Birthday. We hope that you will have many more, and that your "legislative presents" from HUD arrive somewhat earlier in the year. In this way we could celebrate with the passage, rather than the arrival, of their bill.

BACKGROUND

From an economic perspective, the production of housing generates a positive impact on the job market, wages, and tax receipts for federal, state and local governments. NAHB estimates that the production of an average new single-family home requires 2.1 labor years of employment, while generating \$44,000 in wages. It also generates \$16,000 in federal tax revenue and \$6,500 in tax receipts for state and local governments. Multiply that by 1.4 million starts and the positive impact on the U.S. economy is readily apparent. Furthermore, the home becomes a permanent part of the property tax base supporting our public school systems and other important and vital local community services.

Additionally, owner-occupied housing contributes to the stability of our nation's neighborhoods and communities. And, while homeownership is neither a prerequisite nor the panacea for safe, decent, and affordable housing, it remains an important ingredient of the American Dream, a home of one's own to raise a family, to provide additional capital for retirement, and an asset to leave to one's children.

Not everyone desires to own a home of their own, but for many who do, significant impediments exist, particularly for the young first-time buyers. These potential buyers continue to find the downpayment the single largest hurdle between renting and owning. Interest rates are also very important.

In fact, single-family housing is regarded as the most interest-sensitive component of the U.S. economy. Since home purchases for the most part are long-term, highly leveraged investments, a change in the mortgage interest rate translates into a significant change in the monthly payments that home buyers have to meet. For example, a decline from 8 percent (the current effective yield) to 7 percent, reduces the monthly payment on a \$100,000, 30-year fixed-rate home mortgage by about \$70 (from \$734 to \$666).

NAHB estimates that a one percentage point decline in mortgage interest rates makes an additional 4 million households eligible to buy median-priced homes using today's standard mortgage underwriting criteria. Further, we estimate that 180,000 of these newly eligible households will become owners of new or existing homes. About 50,000 of these purchasers will buy new homes.

The commitment to assist first time homebuyers is bipartisan. President Bush pushed for a first time homebuyer tax credit. President Clinton campaigned both to reduce the deficit as an effective means to lower interest rates, and on revitalizing FHA as a means of providing greater opportunities for families who desire to become homeowners. His campaign pledge, also called for increasing the FHA insured mortgage limits for those living in very high-cost housing markets.

PROBLEM

The proportion of households who own their own homes fell from 1980 to 1985 and remained stalled around 64 percent for 7 years. This drop in the homeownership rate had its greatest impact on young, first time home buyers.

Between 1980 and 1993, the homeownership rate for households with heads of household under 35 years of age fell 7 percentage points. Homeownership rates for the 35 to 39 age category fell 9 percentage points and rates for those 40 to 44 years of age fell 5 percentage points.

If households where the head of the household is under 45 simply were to gain their lost ground - - i.e., if the 1980 rates of homeownership, adjusted for changes in family types, were achieved -- then about two million additional families would be homeowners today.

The 1993 annual home ownership rate of 64.5 percent is the first real increase in ownership rate in 13 years. The 1.5 percentage point decline in mortgage interest rates since early 1992 is credited as the largest contributor to this improvement.

The Federal Housing Administration's (FHA) single-family 203(b) program showed increased activity in 1993 as well, representing 8.3 percent of the market. However positive this increase is, optimism must be tempered when it is pointed out that this program has experienced a significant decline in market share during the last decade. In 1987, FHA's share of the market was 15.3 percent. By 1992, the FHA market share had been reduced to 5.6 percent.

While the conventional mortgage market, along with the private mortgage insurance industry, has been moving consistently toward making homeownership more affordable for moderate-income families, the federal government, with the consent of Congress, has continued both to further restrict access to FHA, and to make it more costly for those who do purchase mortgages with FHA insurance.

Some of the changes contained in the National Affordable Housing Act of 1990 were not only necessary, but long over-due to correct the failed policies of the 1980's. And, other changes could, and perhaps should, have been made so that recent purchasers using FHA insurance did not have to bear the cost of projected foreclosure losses from previous 203(b) activity. Certainly the past policy of allowing home purchasers effectively to finance in excess of 100 percent of the appraised value of the property must share much of the blame.

Once the short-term congressionally mandated capital ratio of 1.2 percent is reached, we believe that revitalization of FHA, beyond the issue of fiscal soundness, can and should be considered seriously.

While we strongly agree, that the financial soundness of the FHA's Mutual Mortgage Insurance (MMI) Fund is of vital importance, so too, is the federal responsibility to encourage the availability of affordable housing for single-family homebuyers.

RECOMMENDATIONS

The Administration's authorization legislation, "Housing Choice and Community Investment Act of 1994" (H.R. 4310), contains several provisions to enhance and revitalize the Federal Housing Administration. In combination, they are aimed at expanding homeownership opportunities for lower income families, as well as moderate income families who live and work in high-housing cost areas. Additionally, these provisions, if enacted, would contribute greatly toward returning FHA to its traditional role as innovator and facilitator in the home-buying market. Where the increased risk is clear, the provisions would be insured, not by the regular MMI Fund, but by the General Insurance Fund, where direct appropriations by Congress would be required to cover anticipated defaults. NAHB strongly supports these provisions, with recommendations for only minor modifications.

FHA SECTION 203(B) MORTGAGE LIMITS

Current law establishes the FHA Section 203(b) maximum mortgage limit at 95 percent of the area median sales price, with no area having a maximum of less than \$67,500.

The Administration proposes to set the maximum mortgage limit based on the average sales price data employed in the Mortgage Revenue Bond (MRB) program, to be indexed on an annual basis. HUD would establish one limit for each metropolitan area and one limit for all other areas in a state. This limit would then be indexed to the Constant Quality Index (CQI), a national measure of home price changes with characteristics that remain constant over time.

HUD currently sets metropolitan, as well as state-wide, MRB limits based on data received from the Federal Housing Finance Board (FHFB) within the Office of Thrift Supervision (OTS). Using the same data to set similar limits for FHA would add consistency to the government's homeownership programs and reduce HUD staff demands. (The MRB program has separate limits for "new" and "existing" housing, while the FHA program would have but one limit for all housing within an area).

Such a proposal would reduce the number of areas in which HUD must establish separate FHA limits, and would simplify the sales process for sellers, buyers, real estate agents, and lenders with respect to the different restrictions placed on the various government homeownership programs.

However, to maintain this consistency and simplicity, HUD should continue to use the FHFB/OTS data, along with the same formula for arriving at a single limit for an area or state, instead of the proposed updating method using an alternative index that is neither locality specific nor does it reflect technologic breakthroughs. For example, increased energy efficiency is found in many newer homes that was unavailable to consumers even five years ago. While the initial cost may be higher, significant long-term energy savings are generally experienced by the homeowner. Additionally, energy efficiency requirements by the federal, state or local government, such as dual-pane windows, are no longer an option, but a requirement on new homes in much of the nation. The CQI discounts these energy savings advancements. The Constant Quality Index is a useful analytical tool, but it does not reflect practical changes occurring in the real world.

If HUD wants truly to be consistent, it should adopt for FHA what is used for the MRB program, one limit for new housing, another limit for existing housing for any given area.

FHA HIGH-COST LIMITS

Current Law establishes the maximum single-family mortgage amount at 95 percent of area median home prices, but in no area is it below \$67,500. It also caps the maximum mortgage amount for high housing cost area adjustments to no higher than 75 percent (\$151,750) of the 1992 secondary mortgage market conforming loan limits of Fannie Mae and Freddie Mac. The secondary mortgage market limit currently is \$203,150.

The Administration's Bill proposes to increase this high-housing cost area cap to 85 percent (\$172,675) of these limits. This cap also would adjust annually.

This proposal would broaden the geographic distribution of FHA activity, allowing it to be more responsive to high-housing cost areas. Generally, this provision would allow homebuyers, in high-housing cost areas, to purchase homes closer to the central city, allowing many to be able to live closer to where they work.

The issue arises to whether higher value mortgages would increase the risk to the FHA Mutual Mortgage Insurance (MMI) Fund. While this is a valid question, current data on higher value mortgages guaranteed by the Veterans' Administration (VA) does not give rise to this concern. In fact, the data indicates that higher value mortgages would enhance the MMI Fund's performance. The VA loan guarantee program covers higher mortgage amounts than the FHA insurance program. The current guarantee amount allows for mortgages up to \$184,000 without any down payment. More than one-in-five of the VA purchase loans originated in 1992 covered mortgages over \$120,000. Loans over \$120,000 have comprised at least 10 percent of VA purchase loans since 1988.

The greater the mortgage amount guaranteed by the Veterans Affairs Department, the lower the foreclosure rate. The statement holds true for virtually every year of origination regardless of initial loan-to-value. Some minor exceptions have occurred when larger loans were predominately

in a single location or very small volumes. However, the overriding evidence points to significantly lower foreclosure rates for loans over \$120,000 compared to all other loans.

Several examples, with graphs, demonstrate this behavior. Collectively, the foreclosure rates for all purchase loans originated from 1983 to 1992 as of September 30, 1993 are shown in Exhibit 1. The foreclosure rate for loans of \$140,000 and over is one-sixth of the over-all foreclosure rate and one-third the level of loans between \$100,000 and \$110,000. The foreclosure rate declines about 1.2 percentage points for every \$10,000 increase in loan size.

Even when foreclosures are adjusted for the initial loan-to-value, the performance of larger loans is consistently better than smaller loans. Exhibit 2 shows the rate of foreclosures for high LTV VA purchase loans closed from 1983 to 1992 as of September, 1993. Regardless of LTV, the risk of a foreclosure falls almost in a straight line for every case. The cumulative foreclosure rate for loans over \$120,000 with an initial LTV of 95 percent or higher was 2.5 percent, compared to a rate of 7.2 percent for loans between \$80,000 and \$100,000 for the same LTV. Similar comparison can be made for other LTVs.

The same relationship between foreclosure and mortgage amount holds for individual years of origination. For instance, 1988 originations have had five years of seasoning which usually encompasses the highest risk period for mortgage foreclosures. In the first five years of exposure, loan amounts of \$120,000 and above have had a foreclosure rate of 3.4 compared to all loans at 7.5 percent and to loans between \$80,000 and \$100,000 of 5.9 percent. The comparisons are similar for specific LTVs as can be seen in Exhibit 3.

These comparisons provide clear and unequivocal evidence that mortgages above the current FHA limit but under the maximum VA limit of \$184,000 perform better than lesser value mortgages. Raising the FHA limit will improve the financial soundness of the MMIF by expanding the mortgages insured without increasing the risk of default.

The issue of whether higher value mortgages would result in decreased activity on lower value mortgages, while an equally valid question, is not likely either, given current federal Fair Housing and Equal Opportunity (FHEO) and Community Reinvestment Act (CRA) requirements, as well as Home Mortgage Disclosures Act (HMDA) reporting requirement.

Given this overwhelming evidence, it is clear that to not raise the mortgage limits would serve only to deny working families who happen to work in high-housing cost areas the opportunity of owning a decent home. Rejection of this proposal would also limit FHA's ability to diversify further its insurance risks.

NAHB strongly supports inclusion of this provision in HUD's Reauthorization Act.

FHA INSURANCE FOR REVITALIZATION AREAS

The Administration's Bill proposes insuring authority and special financing terms targeted to first-time homebuyers in revitalization areas that receive public and private investment for improvement. It defines these revitalization areas as empowerment zones, enterprise communities, equivalent state-approved enterprise zones, and urban neighborhoods targeted by a city/county for coordinated affordable housing programs enhanced by supportive services.

Homeownership, money management, and household maintenance counseling would be required. The proposal provided for 100 percent financing of the appraised value of the property. Closing costs, however, could not be financed through the insured mortgage, but could be provided through state or local government programs, non-profit contributions, or seller or other third party gifts. Non-FHA-insured trusts would also be allowed.

Participation in the program would be restricted to first-time buyers with incomes no greater than 115 percent of the area median income. To reduce the opportunity for abuse, HUD would be allowed to set asset and other limitations on participants. The maximum insurance amount would be the greater of \$67,500, or 75 percent of the FHA high-cost limit. Participant buyers could access the program only once. Insurance authority would come from the FHA General Insurance Fund (GIF), as opposed to the self-sustaining MMI Fund used by the regular FHA 203(b) program.

A deferred "up front" premium would be charged, payable upon sale, but not in excess of 50 percent of the net appreciation on the property. The up-front premium would be forgiven if the owner later refinances under certain circumstances. An annual premium of .55 percent also would be charged all purchasers.

Existing FHA underwriting guidelines (non-statutory) would be used. These guidelines set ratios of 29 percent of gross income to housing expenses -- principal, interest, taxes and insurance (PITI), and 41 percent of gross income to total fixed obligations.

The program would have a volume limit of 10 percent of the previous year's single family mortgage insurance volume. HUD projects an activity level of 20,000 to 30,000 loans annually. They also project long-term credit subsidy appropriation costs of \$2.7 million per 5,000 participants.

NAHB estimates that about three-quarters of a million renters who cannot afford a modestly priced home under current FHA downpayment requirements, would be able to afford to buy if this proposal is adopted. FHA would become an active partner with respect to encouraging viable, stable and tax revenue producing neighborhoods.

The government assistance inherent in this approach reflects the balance in expanding FHA's ability to serve the overall market as well as in developing homeownership opportunities to the underserved.

Disposition properties could be used under this program in conjunction with partnership/non-profit efforts, or other state/local subsidy programs, including HOME and HOPE III.

The proposal clearly would result in making FHA an active partner in community revitalization efforts through special program features. NAHB strongly urges its adoption.

SINGLE-FAMILY FHA RISK-SHARING

While no similar provision exists for FHA single-family housing, a pilot risk-sharing program for FHA multi-family housing is contained in the Housing and Community Development Act of 1992.

The Administration's Bill proposes to provide single-family FHA credit enhancement through a risk-sharing arrangement with state and local housing agencies in limited areas where very high housing prices prevail. The state/local housing finance agency would underwrite and process the loans, as well as perform property disposition functions. Underwriting standards, loan terms and conditions would be subject to FHA review and approval. The Government National Mortgage Association (GNMA) would not be authorized to purchase these mortgages.

The portion of the loan insured by FHA could not exceed 80 percent of the appraised value or the maximum FHA high-cost loan limit, whichever is less. The total principal amount of the mortgage could not exceed the secondary mortgage market conforming loan limit (currently \$203,150).

The maximum loan-to-value ratio of the mortgage could not exceed existing 203(b)(2)(B) limits of 97 percent of the first \$25,000 of the appraised value, 95 percent of the excess between \$25,000 and \$125,000, and 95 percent of any amount in excess of \$125,000.

The insurance premium would be shared by FHA and the state/local housing finance agency, but could not be less than the amount necessary to cover FHA's risk plus administrative costs.

This proposal would initiate a new partnership between HUD and states and localities by making FHA insured mortgages available to support state and local efforts to provide affordable housing. The proposal would be limited to "top tier" agencies with approved underwriting criteria in order to minimize risk. By assuming only a portion of risk on relatively larger loans, FHA would enable those states with very high median home prices to serve moderate income buyers more effectively.

Again, Mr. Chairman, NAHB strongly supports this provision and urges its adoption.

INNOVATIVE AFFORDABLE HOUSING PROGRAMS

FHA currently lacks the statutory authority to develop, or to insure, new mortgage instruments except those specifically designated, such as adjustable rate mortgages (ARM's) and Housing Equity Conversion Mortgages (HECM).

Additionally, FHA lacks the authority for demonstration programs involving partnership arrangements with other housing providers such as Fannie Mae, Freddie Mac, the Federal Home Loan Banks, and state and local housing finance agencies.

The Administration's Bill would authorize HUD to establish innovative affordable housing program demonstrations insured by FHA and to form partnerships with Fannie Mae, Freddie Mac, the Federal Home Loan Banks and state and local housing finance agencies in connection with their responsibilities to achieve affordable housing goals.

Each demonstration could be approved by HUD for a period of up to three years. (This would not impact the term of insurance on a mortgage insured under a demonstration). The total number of mortgages insured under any one demonstration program within any fiscal year could not exceed 5 percent of the number of single family mortgages insured in the previous fiscal year. Total demonstrations could not exceed 10 percent of the previous year's single family FHA insurance volume.

These alternative mortgage instruments would be insured under the General Insurance Fund (GIF), with HUD having flexibility to establish terms and conditions notwithstanding existing applicable provisions of the National Housing Act. FHA could once again be an innovator of new mortgage instruments as was intended from its very inception. In our rapidly changing financial world, the premier federal government housing financial institution must be able to adopt to home buyer needs as well as mortgage investors' requirements, and NAHB urges adoption of this provision.

NATIONAL HOUSING TRUST DEMONSTRATION ACT

Current law authorizes a Housing Trust within HUD to provide grants to first-time homebuyers with incomes no greater than 115 percent of the area median income. Funds can be used for interest rate buy-downs, downpayment assistance, and second mortgages to facilitate homeownership affordability. Originally authorized in the National Affordable Housing Act of 1990, the program was modified by the National Affordable Housing Act of 1992. The Homeownership Trust Act has not received a congressional appropriation to date.

The Administration's Bill, while supporting the concept of existing law, would eliminate the Trust entity along with its board of directors. It would also eliminate the interest rate assistance provision.

Further, it proposes to increase the targeting restrictions to low-and moderate-income families by reducing maximum income eligibility to 80 percent, from 115 percent, of the area median income.

It also calls for the elimination of the repayment requirements with respect to the sale of the property or upon an increase in the purchaser's (mortgagor's) income. It would retain the provision requiring repayment if the property ceases to be the mortgagor's principal residence.

Funds would be allocated to states and non-profit housing entities on the basis of an application containing a plan that describes how the applicant will achieve the overall objectives of the program. Additionally, the Administration proposes to provide permanent authority for the program.

The program clearly should be simplified by reducing the need for a duplicative organization to administer the funds. HUD would establish a grant program with state housing agencies and non-profit intermediaries. However, we believe the current law income limit of 115 percent of area median is sound public policy.

The National Housing Trust aims assistance at the heart of the problem most first time home buyers face, the down payment. According to a recent Census Bureau study, 91.6 percent of all renters cannot afford to purchase the median priced home in their area and 86.6 percent cannot afford a modestly priced home (a home priced at the upper limit of the least expensive 25 percent of homes in the area). Virtually all of the renters who cannot afford to purchase, 95.3 and 97.3 percent, fail at least because they lack sufficient cash for a down payment, for closing costs, or to reduce their other long term debts below the maximum debt burdens allowed by mortgage lenders.

We would, respectfully, recommend retaining the current income limits for two reasons. First, they would coincide with the Mortgage Revenue Bond program and the proposed FHA special financing in revitalization areas up to 100 percent of appraised value. The Chairman's legislative proposal has not recommended any change to the income limits.

Second, families and individuals with incomes between 80 percent and 115 percent of area median are equally in need of down payment assistance as those below 80 percent. According to the Census Bureau's study of housing affordability, 95.2 percent of all renters with incomes below 80 percent of median income cannot afford to purchase the median priced home in their area and 90.6 percent of all renters, less than 5 percent fewer renters, with incomes between 80 percent and 115 percent of median income cannot afford a modestly priced home are similar.

By denying Trust status the program will cease to have the potential as a self-sustaining program, but it also would become easier to use, while becoming less staff intensive.

The program modifications increase the federal partnership role in providing affordable housing through the relationship with state housing finance agencies and non-profit entities to strengthen communities.

Additionally, the program will continue to be able to be used in conjunction with the Mortgage Revenue Bond (MRB) program, but without special terms or restrictions for such use. NAHB supports both the funding of the program and making it permanent.

CONCLUSION

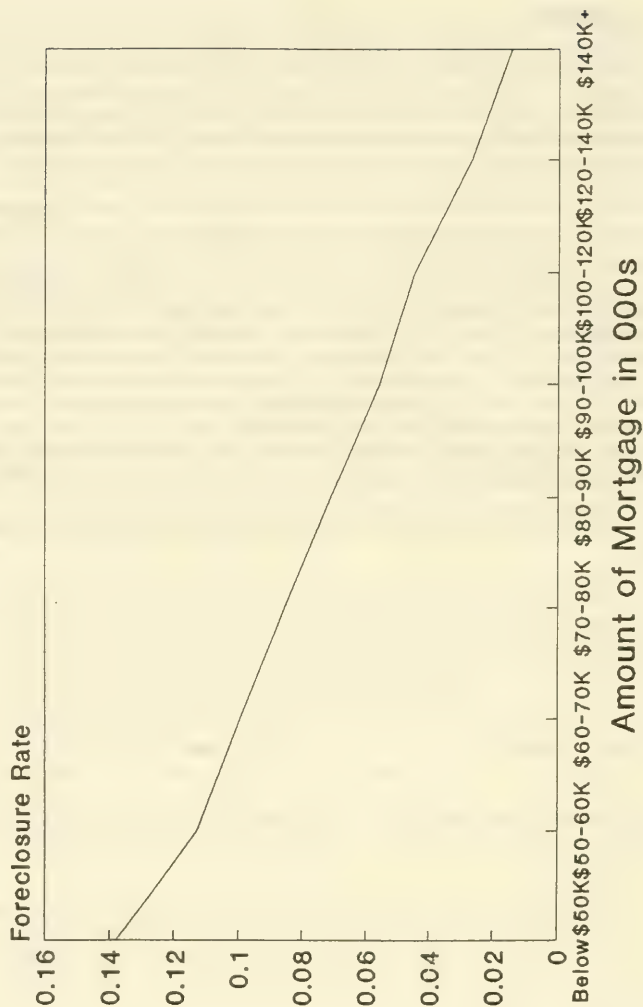
Mr. Chairman, the federal role in facilitating homeownership for moderate-income Americans is longstanding. Likewise, the positive impact that homeownership plays in revitalizing our neighborhoods and communities is equally clear. What is not clear is the commitment that this Congress is willing to make in meeting this responsibility. No one would dispute the need for an actuarially sound FHA.

We could isolate the fiscal responsibility, and focus only on that one responsibility, not proposing, supporting, or enacting change until the capital requirement of 2.0 percent is achieved.

Or, Mr. Chairman, we could seize the opportunity at hand. Based on the 1993 Price-Waterhouse actuarial study for fiscal year 1992, we understand that the MMIF will exceed its capital requirements by the year 2000. We are also heartened that the forthcoming Price-Waterhouse actuarial study for fiscal 1993 is expected to state that the short-term capital ratio has been achieved, and that the long-term ratio of 2.0 percent will be achieved, or exceeded by the year 2000. Therefore, we strongly recommend moving to enhance FHA now. It not only is a balanced approach for homeownership and fiscal responsibility, but also it is sound public policy. It would also go a long way toward returning FHA to its role as innovator and facilitator of affordable homeownership opportunities, without, as some fear, restraining the "competition."

This concludes my prepared testimony. I would be happy to respond to any questions you may have.

Foreclosure Rates By Mortgage Amount Purchase Loans Closed 83-92



Foreclosure Rates By Mortgage Amount Purchase Loans Closed 83-92

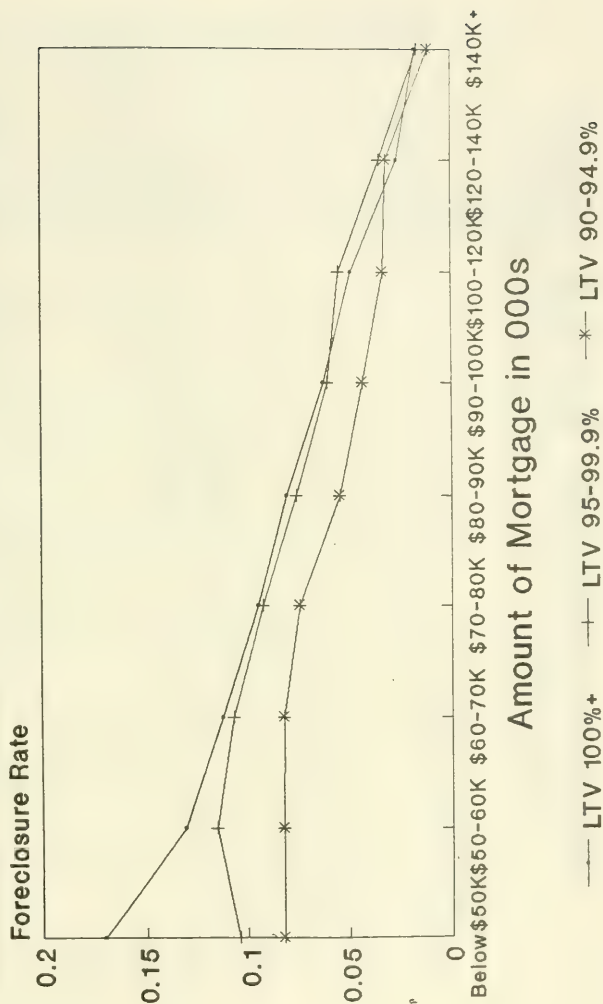
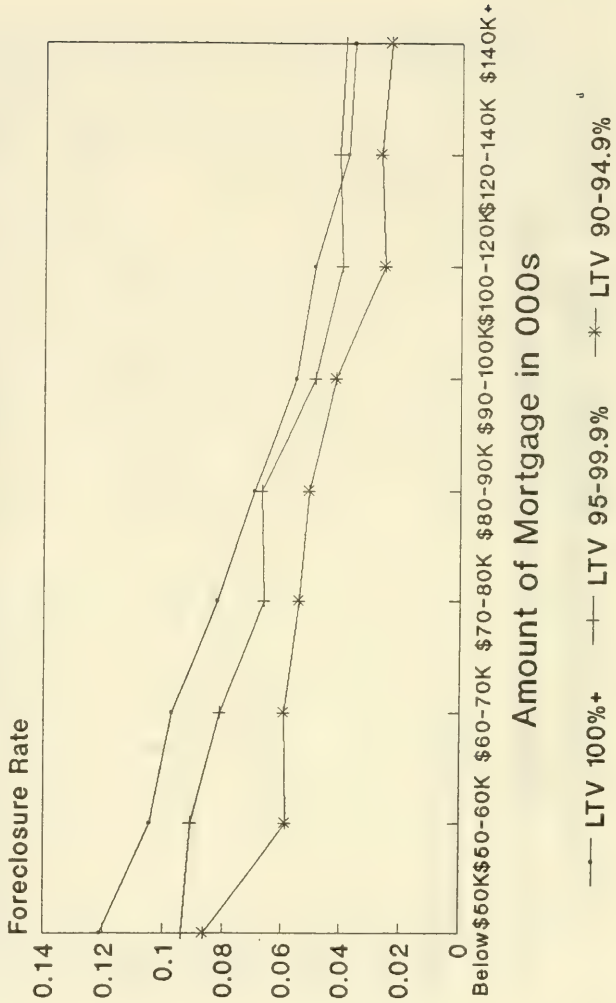


EXHIBIT 3

Foreclosure Rates By Mortgage Amount Purchase Loans Closed in 1988



Question for Mr. Dennis Penman
National Association of Homebuilders
From Chairman Henry B. Gonzalez
Hearing on May 5, 1994

1. We have heard in testimony today the allegation that homebuilders build to the limit of the FHA. In other words, if the Congress does increase the limit, the price of new homes will increase to match the increase in the limit because homebuilders know that financing will be available under the FHA. How do you respond to that allegation?

Response from Mr. Penman to Chairman Gonzalez' Question

1. Mr. Chairman, the allegation that builders build to the FHA limit regrettably is not a new allegation, but it simply is not the case.

Many new home buyers desire to purchase the maximum priced home they can afford. And "afford" is often translated into the maximum that a lender and mortgage insurer will approve. In other words, the basic house price and various amenities particular to the family needs, or expected needs, of the buyer may be included in the mortgage to the maximum amount approvable by the lender and primary insurer. Other amenities, and or needs, that a family decides to purchase must be purchased outside of the mortgage. These often must be financed as well, but for a shorter term and at a higher interest rate.

In one community, a family may desire a basement, the next an extra car garage or patio all other things being equal. In another community, with higher housing costs, a similar family may be able to gain loan approval on a similar home void of all three amenities because of land prices and regulatory burdens.

In these examples, builders did not in the strict sense "build" to the maximum, but rather buyers made a conscientious decision to "buy" at the maximum whether prompted by need or outside influences.

But, builders are not wanting to push buyers to their maximum limit to earn a larger profit. Buyers are wanting to formulate a long-term relationship with young families buying a home in hope that when the family later sells and purchases their next home that they will again seek the same builder.

Many builders rely on repeat business for growth. Whether the buyer is buying a home, a car, a lawnmower, or a week's groceries, it's customer satisfaction that brings them back.

There is a market system out there Mr. Chairman, that I am proud to say works. Few builders operate without competition. If a builder can provide the same product for less, the lower cost home will be built and sold and the builder will increase his or her market share at the expense of the higher-priced builder.

May 5, 1994 Hearing

Questions submitted by Cong. Roukema

For Mr. Dennis Penman, National Association of Home Builders

1. On page 5, you testify that the use of the Mortgage Revenue Bond limits to determine the FHA mortgage limits should add consistency to the government's homeownership programs and reduce HUD staff demands.

i Please elaborate! How has HUD worked with the MRB limits in the past, and are you sure that the public, particularly the real estate market will not be confused?

2. On page 6 of your testimony, you state cite the Veterans Administration program that has a limit of \$184,000 without any downpayment. You specifically state that "the greater the mortgage amount guaranteed by the Veterans Affairs Department, the lower the foreclosure rate."

i That statement is inconsistent with other witnesses who have testified that the higher the mortgage the higher the default/foreclosure rate. Is there a distinction between your testimony and Ms. Cincotta's? Do you believe that we are overreacting by thinking that higher mortgage limits will mean higher foreclosure rates?

3. In your support for the No Downpayment program, you fail to mention the impact on the "identified" and "revitalized" neighborhoods. There is a school of thought that this program will cram low income people into less than desirable areas. Could you expand your discussion to include your thoughts on the impact on neighborhoods?

Responses from Mr. Penman to Congresswoman Roukema's Questions

1. Our testimony speaks to the government's consistency with respect to mortgage revenue bonds (MRB) and FHA based on the point that it is HUD which collects the data and determines an area's new and existing home price limits under the MRB program. From this perspective, it would be logical to conclude that since HUD has already performed this duty for the MRB program that they could use the same figures, assuming of course that Congress were to concur, for the FHA area limits.

The ability for confusion, whether at HUD or in the real estate market, perhaps should never be underestimated. This possibility aside, however, leaves open the question of whether home purchasers might be less confused if the limits were the same. Beyond this, I would only say that NAHB has no policy on using the same mortgage limits for both programs.

2. Based on the statistical data provided by the Veterans Administration, their higher value loans perform better, that is, have a lower default rate, than do their lower value loans. While this data is contrary to the position taken by the private mortgage insurers (PMI), we suspect that both positions may be true. While there may, or may not, be other variables to consider besides home price alone, the VA limit is clearly lower than the PMI limit. The yield curve quite possibly reverses itself at or near the secondary market conforming loan limit, producing a higher risk on the "jumbo priced loans." If this is in fact the situation -- we do not have access to PMI data -- then risk is less as the purchase price increases until a point when it begins to increase. Congress or Price-Waterhouse may want to look at the entire price range. The point we make is that this is not data collected by the industry, but rather from VA.
3. The no downpayment initiative is not unlike the National Housing Trust, except that the Trust program is broader and includes the potential for interest rate buy-downs or assistance with closing costs. The school of thought that focuses on "cramming low-income people into less than desirable neighborhoods" is clearly viewing a possibility, but we hope not a probability. This program clearly should not be used alone to "revitalize" a neighborhood. Businesses and services are equally important. It is a three legged stool. All must be in existence and in balance one with another. The no downpayment program would help to ensure that the revitalized neighborhood goes beyond a trendy area for middle- or upper- middle income and includes an income balance. And, it would go a long way toward providing affordable housing in an area where there is a growing job market.

**STATEMENT OF LOU T. ZELLNER
FOR THE MORTGAGE INSURANCE COMPANIES OF AMERICA
BEFORE THE SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
ON THE FEDERAL HOUSING ADMINISTRATION**

May 5, 1994

I am pleased to be here representing the Mortgage Insurance Companies of America (MICA). I presently am Senior Vice President for Corporate Planning, at Mortgage Guaranty Insurance Corporation.

The mortgage insurance industry has significant experience in helping people buy homes they can afford to keep. Last year, MICA's members served 1.2 million families. The mortgage insurance industry also has aggressively worked to target mortgage money to low-income and other underserved families and has pioneered ways to better serve this market. It is because of this experience that we have significant concerns with the Administration's proposals regarding FHA.

The Administration's proposals will push FHA to upper income people rather than expanding its ability to serve low- and moderate-income people. In addition, they will make sweeping changes to FHA and significantly increase the contingent liability of the federal government. These changes are being proposed at a time when FHA's infrastructure is deficient. It has difficulty supporting its present programs, let alone managing new risk.

Proposals Push FHA In the Wrong Direction

More than half of the Administration's proposals regarding FHA will not appropriately help low- and moderate-income people purchase homes and could in fact hurt them. One proposal raises FHA's loan limits in high cost areas to about \$172,675 and changes the way the base limit is calculated so that it will go up in many parts of the country. Another proposal permits FHA to risk-share with state housing agencies so that together state and federal government can insure loans up to \$203,150. A third proposal provides for housing demonstration programs. These demonstrations would allow FHA to experiment with alternative mortgage instruments which generally are designed for higher income people who can afford fluctuations in their mortgage payments and to partner with the government sponsored enterprises (GSEs). A final proposal allows FHA to insure zero down payment loans in lower income communities.

FHA Proposals Are Inconsistent With The Goal Of Expanding Homeownership Opportunities - These proposals are inconsistent with the rest of the Administration's policies regarding the financial services industry. The Comptroller of the Currency, the Attorney General and most significantly, the Secretary of HUD, have been very vocal in encouraging the private sector to make more credit

available in underserved markets. For example, the Secretary recently indicated that he wanted financial institutions to increase their minority lending by 20 percent in one year. He is also establishing a unit in HUD to protect against discrimination by lenders and insurers..

FHA proposals are misdirected. To make payments on a \$170,000 mortgage, a borrower needs about a \$71,000 income. Only 13 percent of American families earn \$70,000 or more. Attachment A shows how income and homeownership in this country are distributed. Only 20 percent of American households earn \$50,000 or more, yet almost 90 percent of them own their own homes. Conversely, 40 percent of American households earn less than \$20,000 and only 48 percent of them own their own homes.

The Administration has stated that by raising FHA's loan limits, FHA will be helping families in Bridgeport, Connecticut earning \$65,000. Median household income in Bridgeport is \$33,090. Only 17 percent of the households in Bridgeport earn \$65,000 or more. The upper income family earning \$65,000 in Bridgeport has easy access to the mortgage market. It is the lower income family in Bridgeport who is having difficulty in obtaining a mortgage and this is the kind of family FHA is intended to serve.

The Administration has articulated no basis for raising the base FHA loan limits. They have claimed that high-cost areas are having difficulty gaining access to FHA and raising the base limit will not remedy that perceived problem. Similarly, the Administration has claimed that the way the FHA limits are set is too complicated and needs to be simplified. Rather than simplifying it, this proposal maintains the existing way of setting the high-cost area limit and creates a complex system for setting the base limits.

The Administration has stated that state housing agencies and FHA should share the risk on loans up to \$203,150, in order to better serve California. FHA already is very active in California. In 1993, 13 percent of all FHA-insured loans were originated in California. This is up from about 10 percent the previous year.

More importantly, the Administration's proposals do not make housing more affordable in California because they do not legislate a pay raise, they simply allow upper income people to take advantage of a government subsidized program. Attachment B provides median household incomes in some metropolitan areas in California and the largest mortgage that the median-income family can afford. Even in San Francisco or Los Angeles, a family with the median income can only afford a house substantially below the existing FHA limits.

The Administration has also stated that FHA should be directed to upper income people because larger loans "perform better." It is difficult to understand how the Administration holds this belief while it is vigorously encouraging the private sector to invest more in lower income communities. MICA does not believe that families are less credit worthy simply because they are not fortunate enough to have a substantial income. In fact, mortgage insurance industry data does not support the Administration's supposition. Attachment C shows all mortgages insured by private mortgage insurers from 1981 to 1991, with a 95 percent loan-to-value ratio, that went into default as of December 31, 1993. The loans are broken out by loan size and the claims are indexed. The index number one is the average claim rate for all the loans. The chart shows that the claims on loans under \$75,000 were slightly less than the average of all claims. Claim rates on loans over \$200,000, on the other hand, were almost two-and-a-half times greater than the average.

FHA has virtually no experience on seasoned loans of more than \$100,000 because FHA's limit was only raised to \$124,875 in 1990 and \$151,725 in 1993. It will take at least five to seven years of seasoning on these larger loans to fully understand their claim rates. MICA has no reason to believe FHA's larger loans will perform any better than the private sector's loans.

FHA Proposals Could Hurt Lower Income People - The four FHA proposals could end up hurting lower income people and their communities.

The most obvious example is the zero down payment proposal for "revitalization areas." It is well accepted that default rates climb as down payments decline. With very low down payment programs, good pre- and post-purchase counselling is essential to ensuring that families are buying homes they can afford to keep. The Administration's proposal does not ensure that appropriate counselling is available. In fact, no mention is made of post-purchase counselling. This proposal, therefore, could end up causing higher default rates and more boarded-up houses which blight neighborhoods.

Similarly, raising the loan limits either directly or through risk-sharing agreements with state agencies could mean less affordable housing is available in the areas where the limits are raised. Many builders build homes that are priced at the FHA limits. House prices that were within the old, lower FHA limit, will be raised to the new, higher limit, once the limits are increased or FHA can risk-share with state agencies.

The proposals for risk-sharing with state agencies and for housing demonstration programs effectively eliminate the

concept of sharing risk which has been a key to the conventional mortgage market's ability to keep foreclosure rates within acceptable levels. When each party to the transaction, -- the borrower, lender, insurer, and investor -- have a stake in the loan, they will examine it to ensure borrowers are buying homes they can afford to keep. FHA provides 100 percent insurance on its loans, as opposed to the 20 percent to 25 percent insurance coverage that private insurers generally provide. With 100 percent government insurance, parties to the transaction are less likely to work with defaulting borrowers to keep them in their homes because the government is bearing most of the risk of loss. These two proposals place the risk of loss on the government on loans that can be securitized by GSEs. Since the proposals do not indicate that the GSEs will have a stake in the transaction, there likely will be much higher foreclosure rates.

Finally, if lower income people were to take advantage of more adjustable rate mortgages that could be available through the housing demonstration program, it will result in higher default rates. If interest rates were to rise from 8 percent to 9 percent on \$90,000 loans, the borrowers' monthly payments would rise by about \$64. If interest rates rise to 10 percent, borrowers' monthly payments would rise by \$129 a month. Lower income people do not have the incomes to withstand this increase in payment.

FHA Does Not Have The Resources To Properly Manage These Programs

The Administration's proposals greatly expand FHA's operations at a time when FHA's existing infrastructure is so deficient that it has difficulty supporting its present programs and is inadequate to handle the sweeping changes these proposals will bring. Equally important is the fact that the proposals themselves are fundamentally flawed and they place significant risk on taxpayers.

FHA's Infrastructure Is Substandard - HUD and FHA do not have the ability to safely implement these proposals. The last two Inspector General's (IG) reports confirm that there are systemic problems at HUD. These problems must be remedied before broad, new initiatives are undertaken.

The IG states that "HUD's programs are still at considerable risk of abuse and loss." It cites three systemic problems -- 1) "delays in developing and implementing adequate integrated financial management data systems," 2) "insufficient staff levels and resource management problems," and 3) a "lax control environment that fails to manage risks or hold managers accountable for performance."

Regarding the single-family program, the IG has identified "patterns of irregularities and questionable practices." The

IG continues to have concerns about the "integrity" of the program. The reports say that HUD must improve post endorsement reviews to insure loan quality and take action on poor mortgage underwriting.

The IG is also appropriately concerned about the fact that FHA is in the asset management business with little ability to administer the tremendous amount of foreclosed homes and defaulted mortgage loans it now manages. FHA has approximately 66,000 loans in the assignment program and 28,000 homes in foreclosure. Loans in the assignment program are loans that the lender has assigned to FHA when the borrower is in default so that the burden of working with the delinquent borrower is passed on to FHA. Regarding FHA's property management and disposition, the IG said, "problems of staffing and resource management" continue to adversely impact "this high-dollar program area." In fact, the IG said that FHA was "not adequately preserving housing inventory and protecting the financial interest of the government."

The last Price Waterhouse report said that FHA's current and future books of business must generate cash surpluses in order to offset losses on old books of business. Appropriately managing these books of business, therefore, is essential to FHA staying on the path toward financial recovery. As a result, Congress must consider whether FHA's present and future business can continue to generate surpluses with the systemic problems outlined in the IG's report. In addition, if the Administration's proposals are implemented, can FHA take on the additional contingent liability and management responsibilities that come with the new liability, when the problems have not been solved?

FHA Proposals Are Fundamentally Flawed - Not only is FHA ill-equipped to handle new programs, but the proposals themselves are significantly flawed.

Losses to FHA on three proposals (risk-sharing with state housing agencies, demonstrations with alternative mortgage instruments, and zero percent down payment mortgages) could be borne directly by taxpayers. The losses will come out of the General Insurance (GI) Fund, rather than the Mutual Mortgage Insurance (MMI) Fund. Unlike the MMI Fund, the GI Fund is not required to be actuarially sound and requires direct appropriations to make up for insufficiencies. As a result, under the risk-sharing proposal, loans to people purchasing homes with mortgages higher than \$151,725 (the present FHA limit in high-cost areas) will not have to meet FHA's requirements to be actuarially sound, while people purchasing lower priced homes under the regular FHA program will have to meet them. Under the housing demonstration program, taxpayers could bear the burden of making more alternative mortgage instruments available, which are not designed for lower income

people. Under the zero percent down payment proposal, FHA will be encouraging very risky loans in communities that cannot afford to see more foreclosed properties.

The risk-sharing proposal contains many of the same dangerous features that were part of the failed multi-family coinsurance program. The state housing agency would take the first level of risk and the underwriting criteria would be developed on a case-by-case basis. More importantly, no specific financial requirements are imposed on the state agencies to insure their actuarial soundness. If the state agencies do not have the resources to meet their first-level of risk, then the losses will be paid out of the GI Fund, requiring appropriations. It is not unrealistic to presume that state insurance funds will not be adequately capitalized. Note, for example, the demise of funds that insured depository institutions in Maryland, Rhode Island and Ohio.

The risk of loss could be placed completely on the government in two of the FHA proposals (the risk-sharing and housing demonstration proposals) and, therefore, provide another government benefit to the GSEs. Fannie Mae and Freddie Mac are publicly held, profit making corporations that are chartered by the federal government to fulfill a public purpose. They receive certain government benefits to help them with their mission. Both of these proposals benefit them further by enabling them to securitize loans where the risk of loss is on the government.

Increasing FHA's Market Share

The Administration has indicated on several occasions, that FHA changes are needed in order for FHA to reclaim its role as a leader in the nation's mortgage market. MICA believes that the Administration should be more concerned with expanding the base of people who can become homeowners than FHA's market share. FHA's business increased 64 percent in 1993 over its 1992 level.

FHA should be focused on expanding its market share of loans to low-income and minority families and families living in inner cities and rural areas - As FHA is pushed toward upper income people, its focus on lower income people will be diluted.

MICA's members have worked deliberately and thoughtfully to put more low-income families into homes. They have devoted considerable resources to ensuring that the home buyers could afford the homes they were purchasing and have worked closely with local community groups and other participants in the mortgage market. For example, recently several mortgage insurers introduced insurance on loans with 97 percent loan-to-value ratios. These loans are targeted by income and require pre- and post-purchase counselling to ensure that low-

income families will be able to keep the homes they buy. These private sector initiatives stand in stark contrast to the Administration's proposals to push FHA to upper income people.

FHA is doing an inadequate job of serving minority families. While in 1992 7.8 percent of FHA's loans were to African Americans and 2.3 percent of the conventional market were to African Americans, the conventional market actually served many more people in this minority group. Home Mortgage Disclosure Act (HMDA) data shows that African Americans received 40,330 FHA-insured loans in 1992, while the conventional market originated 117,077 loans to African Americans.

Very few minority families will be able to take advantage of the new higher limits. As stated earlier, a family needs a \$71,000 income to meet the payments on a \$170,000 mortgage. According to the 1992 Census figures, only 5 percent of the households earning \$70,000 are African Americans and only 6 percent are Hispanic.

FHA already has a considerable share of the insured mortgage market - Attachment D provides FHA and private mortgage insurers' market share by quarter from 1982 through the first quarter of 1994. You will note that FHA presently has a larger share of the market than private insurers. You will also note that market share moves over time, with no particular pattern.

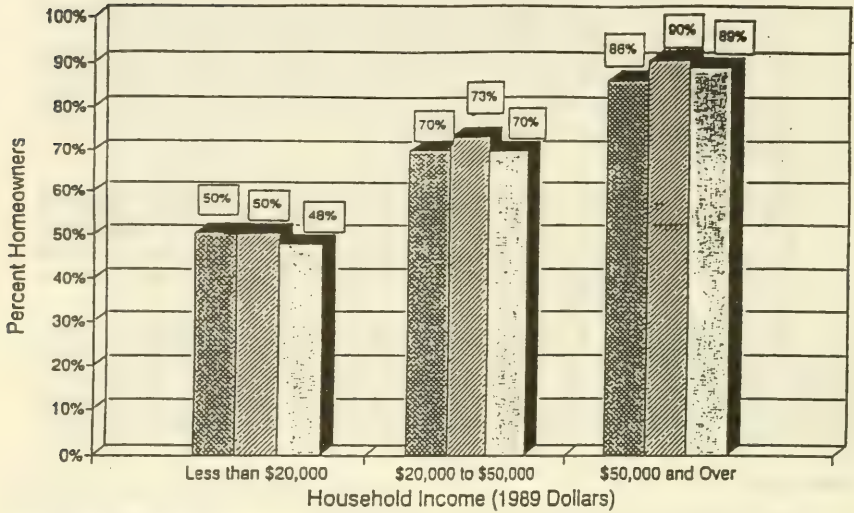
Conclusion

The Administration's FHA proposals put the cart before the horse. When Secretary Cisneros announced the Administration's initiatives, he said that Assistant Secretary Retsinas would be holding "listening conferences" across the country in which HUD would rethink the role and mission of FHA by hearing directly from the people. These conferences are the appropriate course of action prior to sweeping changes being made in FHA. In view of the IG's reports, it also is appropriate that HUD and FHA's internal structures be reviewed and updated to 1990's technology.

It seems reckless to be making fundamental changes to FHA and significantly increasing the contingent liability of the American taxpayer, before FHA's mission is re-defined and before appropriate administrative and financial management controls are put in place. If it is determined that FHA should serve families who are underserved, FHA will have to eliminate these new programs and develop other efforts to serve those in need. This is a waste of scarce resources at a time when FHA should restore its management capabilities and restore its image as a government program which truly helps people who could not otherwise afford a home. MICA strongly urges Congress to review HUD's proposals and reject them as flawed and pointing FHA in the wrong direction.

ATTACHMENT A

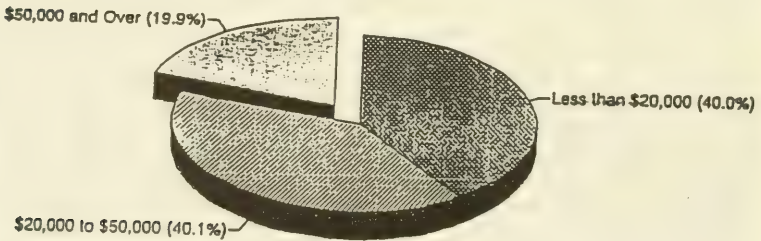
Percent Homeowners By Household Income 1974, 1981 and 1991



Source: Joint Center for Housing Studies
of Harvard University, 1993

1974 1980 1991

1991 Percent Distribution of Households By Income Level (1989 Dollars)



Sources: The Joint Center for Housing Studies of Harvard University, 1993
1991 American Housing Surveys

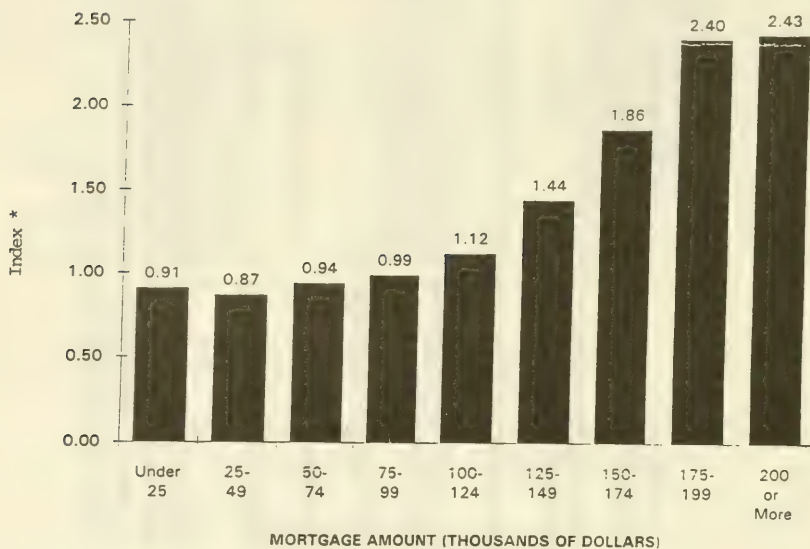
<u>STATE</u>	<u>STATE METRO AREA</u>	<u>MEDIAN HOUSEHOLD INCOME</u>	<u>LARGEST AFFORDABLE FHA MORTGAGE</u>
CALIFORNIA	SAN FRANCISCO-OAKLAND SAN JOSE CMSA	\$36,711	\$92,531
	SAN FRANCISCO-CENTRAL CITY	\$36,696	\$92,494
	LOS ANGELES-ANAHEIM - RIVERSIDE CMSA	\$36,711	\$92,531
	LOS ANGELES-CENTRAL CITY	\$31,963	\$80,564
	SAN DIEGO MSA	\$35,022	\$88,274
	SAN DIEGO-CENTRAL CITY	\$33,616	\$84,730

NOTES:

1990 CENSUS DATA USED TO DETERMINE MEDIAN HOUSEHOLD INCOME
 MORTGAGE ASSUMPTIONS - 30 YEAR FIXED RATE MORTGAGE AT 8% INTEREST,
 2 % ANNUAL PROPERTY TAXES, 50 BPS FHA PREMIUM, 29% MAXIMUM
 BORROWER INCOME RATIOS FOR FHA.

ATTACHMENT C

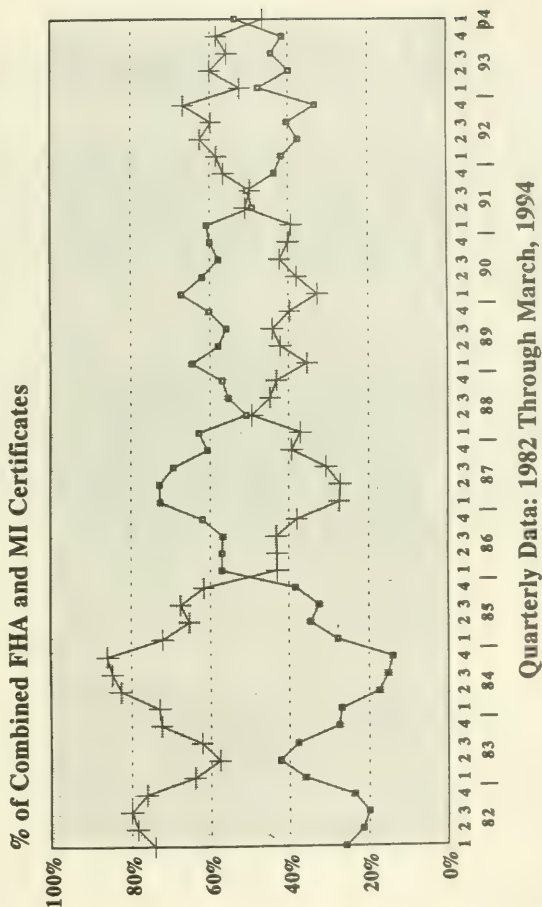
MICA CLAIMS INDEX : US : 95% LTV : POLICY YEARS 1981-91



* Number one is the average claim rate for all loans insured by private mortgage insurers from 1981-1991, with a 95 percent loan-to-value ratio that went to claim as of December 31, 1993.

FHA AND MI CERTIFICATE COMPARISONS

Quarterly Shares of Combined Loans



Sources: FHA, MICA

Questions for Ms. Lou T. Zellner
Mortgage Insurance Companies of America
From Chairman Henry B. Gonzalez
Hearing on May 5, 1994

1. As you know, the increase in the high-cost mortgage limits will not effect every locality. The localities effected will be those in which 95% of the area median cost of housing is greater than the current 75% and the proposed 85% of the conforming loan limit. While I realize you disagree with the increase of the in the conforming loan limit, do you believe that the area median cost of housing is an effective balancing mechanism in setting the limit locality to locality.
2. While you have emphasized your concern that the Mutual Mortgage Insurance Fund will be at a greater risk if the Congress were to increase the FHA limit, you have also discussed the fact that the federal government will take a portion of the market from the private sector. On the other hand, you also emphasize your concern that the General Insurance fund, which must be appropriated for, will be at direct risk if the Congress were to authorize the Administration's initiative that is strictly targeted towards low-income buyers in distressed areas. If the government is not to provide assistacne for these people and in these areas, what is the private sector doing, that you are aware of, that may provide homeownership opportunities for these people?

(Responses from Ms. Zellner)

Questions for Ms. Lou T. Zellner
From Chairman Henry B. Gonzalez
Hearing on May 5, 1994

1. As you know, the increase in the high-cost mortgage limits will not effect every locality. The localities effected will be those in which 95% of the area median cost of housing is greater than the current 75% and the proposed 85% of the conforming loan limit. While I realize you disagree with the increase of the conforming loan limit, do you believe that the area median cost of housing is an effective balancing mechanism in setting the limit locality to locality?

No, MICA does not believe that area median house cost is an effective mechanism for setting the FHA's loan limits. First, median house cost, especially in high-cost areas, still typically requires an income higher than the median to make the monthly payments. Simply raising the limits does not increase family income. To purchase a home with a \$172,000 mortgage, a family would need a \$70,000 income. Only 13 percent of American households earn over \$70,000 a year. According to the 1990 Census, of those families earning \$50,000, about 90 percent of them already own their own homes. These families have access to the mortgage market. FHA should be focused on families who are having trouble gaining access to the mortgage market. FHA's mission should be to serve low- and moderate-income families, first-time homebuyers and those in underserved markets that the private sector is having trouble reaching.

The industry also has identified some technical problems with the current system for adjusting FHA's loan limits which artificially inflate housing costs. For example, the data provided to HUD by the mortgagees is simply home sales. By not tracking home improvements between sales, the area home prices are artificially inflated. Modernization and additions can easily add thousands of dollars to the home's sales price. Another issue is that HUD gives more weight to new home sales than existing home sales. Typically, there are more existing homes sold than new, yet the new homes cost more. When HUD does not calculate a weighted average, it artificially inflates house prices. Finally, HUD relies on data generally not available to the public.

2. While you have emphasized your concern that the Mutual Mortgage Insurance Fund will be at a greater risk if the Congress were to increase the FHA limit, you have also discussed the fact that the federal government will take a portion of the market from the private sector. On the other hand, you also emphasize your concern that the General Insurance Fund, which must be appropriated for,

will be at direct risk if the Congress were to authorize the Administration's initiative that is strictly targeted towards low-income buyers in distressed areas. If the government is not to provide assistance for these people and in these areas, what is the private sector doing, that you are aware of, that may provide homeownership opportunities for these people?

The Members of MICA know from experience that the key to default is downpayment. When the federal government offers to ensure low downpayment loans on properties costing \$172,000, it is putting the MMI Fund at great risk. The mortgage insurance industry's experience has been that defaults increase on low downpayment loans as the loan size increases. However, a zero downpayment program, even in a targeted approach, also is a risk.

Families need to have a stake in purchasing their homes. Private mortgage insurers are currently working with local community groups, non-profits, the secondary market, lenders, and others to come up with programs that are geared to assist families to become homeowners, and assure that they can afford to stay in the homes once they purchase them. None of us win if the family loses the home. So we look at ways to make the process work for everyone. The new three percent down products being offered by the mortgage insurance industry are targeted to low-income homebuyers, require pre- and post-purchase financial counseling for all purchasers and are a growing trend in the mortgage market.

May 5, 1994 Hearing

Questions submitted by Cong. Roukema

For Mr. Lou T. Zellner, Mortgage Insurance Companies of America

1. On page 6 of your testimony, you state that the risk-sharing program is fundamentally flawed. Specifically, you state "the state housing agency would take the first level of risk and the underwriting criteria would be developed on a case-by-case basis."

i What if the legislation were tightened to guarantee that FHA would be the first entity to receive proceeds from a defaulted/ foreclosed mortgage, then would there be much loss to the General Insurance Fund? Wouldn't this program's success depend on the state agencies ensuring that they do not create substandard underwriting requirements that would put the state fund at risk?

ii As a follow-up, if FHA was placed in the first priority to be taken care of during the foreclosure sale, and according to your testimony, a state fund was not adequately insured, then would the risk fall on the GSE's? Could you explain how GSE would not be at risk?

2. You testify, on page 6, that FHA increased its business share by 64% in 1993 over its 1992 level.

i What was the increase in the private-sector? Would you agree that an increase in FHA business was artificial because of the extraordinary refinancing activity occurring throughout the market?

3. Your comments on FHA's market share suggest that FHA is obsolete and not fulfilling its message, as compared to the private-sector. You mention statistics regarding the private-sectors market share of African Americans, which I interpret as part of the share of minority lending.

i What is your opinion of FHA and do you think that this Subcommittee should seriously consider its elimination, based on your testimony and other witnesses?

(Responses from Ms. Zellner)

Questions for Ms. Lou T. Zellner
From Congresswoman Marge Roukema
for Hearing on May 5, 1994

1. On page 6 of your testimony, you state that the risk-sharing program is fundamentally flawed. Specifically, you state "the state housing agency would take the first level of risk and the underwriting criteria would be developed on a case-by-case basis." i) What if the legislation were tightened to guarantee that FHA would be the first entity to receive proceeds from a defaulted/foreclosed mortgage, then would there be much loss to the General Insurance Fund? Wouldn't this program's success depend on the state agencies ensuring that they do not create substandard underwriting requirements that would put the state fund at risk? ii) As a follow-up, if FHA was placed in the first priority to be taken care of during the foreclosure sale, and according to your testimony, a state fund was not adequately insured, then would the risk fall on the GSEs? Could you explain how GSEs would not be at risk?

i) No, FHA is at substantial risk whether or not it is the first to receive proceeds from the sale of the foreclosed property. There are several reasons FHA is still at risk. First, this proposal enables all of the loss in the event of foreclosure to be covered by state or federal insurance. If the investors who securitize these loans (such as Fannie Mae and Freddie Mac) do not have any risk of loss then they are less likely to care about the quality of the loan originated. In order to minimize foreclosures all parties to the transaction -- the borrower, lender, insurer and investor-- must risk losing something if foreclosure occurs. Second, there is no language in the Administration's proposal which specifically limits FHA's claims payment to the amount it originally agreed to provide. Therefore, it is likely that FHA would be left to pick up all the loss if the state agency did not have the resources to do so. This will result in significant, unforeseen losses to FHA. Third, nothing in the Administration's proposal will ensure that the states have the resources to meet their obligations. Simply limiting the states to being second in line for the proceeds of the foreclosure sale is not the answer. Specific financial requirements must be imposed on the state insurance authorities. In addition, the insurance coverage provided to the GSEs must be limited so that they risk a loss in the event of foreclosure. The legislation must also clearly state that FHA will not make up for any losses not covered by the states. One only has to look at the failed depository insurance funds in Ohio, Rhode Island, and Maryland to understand the consequences of undercapitalized state insurance funds.

ii) To understand whether FHA, the GSEs or the state housing agency would suffer losses at a foreclosure a couple of issues would have to be established. As outlined above, how

the risk is divided between the participating entities, and the total "depth" of insurance coverage. Also, it would have to be clear whether one entity would be required to cover for another if one is unable to pay.

We think risk of loss should be shared, and that the insurance should only cover a portion of each loan. In that case, FHA would not offer its 100 percent insurance and GSEs would bear a specific risk of loss in order to ensure minimal foreclosures.

2. You testify, on page 6, that FHA increased its business share by 64% in 1993 over its 1992 level. i) What was the increase in the private-sector? ii) Would you agree that an increase in FHA was artificial because of the extraordinary refinancing activity occurring throughout the market?

i) The private sector's volume of business increased by 32% from 1992 to 1993.

ii) I would not characterize the recent increase in housing activity in both refinancings and originations as "artificial." Low interest rates affected privately insured, FHA, VA and non-insured mortgages. Low interest rates affected all mortgage holders and parties to the mortgage transaction. The FHA was able to benefit by the increase in refinances just like everyone in the mortgage business.

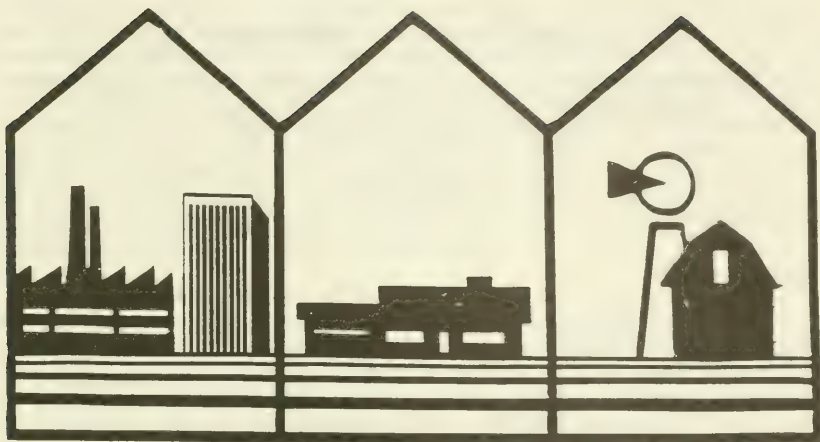
3. Your comments on FHA's market share suggest that FHA is obsolete and not fulfilling its message, as compared to the private-sector. You mention statistics regarding the private-sectors market share of African Americans, which I interpret as part of the share of minority lending. i) What is your opinion of FHA and do you think that this Subcommittee should seriously consider its elimination, based on your testimony and other witnesses?

The private mortgage insurance industry supports a strong and viable FHA. We do not support eliminating the program. However, the industry believes Congress should re-evaluate FHA's mission. FHA was created to assist first-time homebuyers, and low- and moderate-income families to become homeowners. Over the last few years, Congress has raised FHA's loan limits so that it is serving higher and higher income families. The current Administration proposal would raise FHA's loan limits to \$172,000. Families must have a \$70,000 income to be able to afford the payments on that size mortgage. However, according to the 1992 Census data, only the top 13 percent of all U. S. households earn over \$70,000 a year. Only half of the families who earn less than \$20,000 own their homes, while almost 90 percent of those earning over \$70,000 are homeowners.

FHA needs to focus on those families who need government

assistance to become homeowners. The mortgage insurance industry believes families earning \$70,000 are generally well served by the private market. Currently, the conventional market has a better record at serving minority borrowers than FHA. In 1992, the conventional market originated 117,077 loans to African Americans, while FHA only insured 40,330 loans that went to African Americans.

All players in the mortgage market need to do a better job in underserved markets. There is a valid public policy argument that FHA focus on those underserved markets, too.



Statement of the
NATIONAL ASSOCIATION OF REALTORS®

The Voice for Real Estate™
THE WORLD'S LARGEST TRADE ASSOCIATION

STATEMENT OF THE
NATIONAL ASSOCIATION OF REALTORS®
BEFORE THE
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
COMMITTEE ON BANKING, FINANCE, AND URBAN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

BY
RICK ADAMS
MAY 5, 1994

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INTRODUCTION

Mr. Chairman, Members of the Subcommittee, my name is Rick Adams. I am a REALTOR® from San Antonio, Texas and Vice Chairman of the Public Policy Coordinating Committee of the NATIONAL ASSOCIATION OF REALTORS®. On behalf of the nearly 750,000 members of our Association, I appreciate the opportunity to testify today on the FHA single family housing program and HUD initiatives to stimulate homeownership opportunities.

Mr. Chairman, as you know, the NATIONAL ASSOCIATION OF REALTORS® represents a wide variety of housing industry professionals committed to the development and preservation of the nation's housing stock and making it available to the widest range of potential homebuyers. NAR has a long tradition of support for innovative and effective Federal housing programs that are intended to benefit first-time and low-, moderate- and middle-income homebuyers. We wholeheartedly welcome the opportunity to work with the Subcommittee to ensure housing availability and accessibility.

At the outset, Mr. Chairman, the NATIONAL ASSOCIATION OF REALTORS® commends you for your leadership in preserving sufficient Federal assistance for HUD housing programs and ensuring program continuity to generate housing opportunities. We also commend you for your efforts to improve the financial health of the Mutual Mortgage Insurance Fund, the audit of which is expected to show that FHA has exceeded its mandated capital reserve ratio and is projected to meet its 2 percent reserve requirement in advance of the year 2000.

Mr. Chairman, the NATIONAL ASSOCIATION OF REALTORS® applauds the Administration's effort to undertake the awesome task of reshaping our Federal government to ensure an effective, efficient, and responsive government that "works better and costs less", and we stand ready to work with the Subcommittee and the Administration to achieve this important objective. We realize that measures must be taken to reduce the federal deficit and we welcome the Administration's recognition that the private sector is the engine of economic growth and that new alliances must be forged to maximize savings.

More specifically, the NATIONAL ASSOCIATION OF REALTORS® commends Secretary of Housing and Urban Development Henry Cisneros for his commitment to promote and improve the availability and affordability of housing. We believe his goal of fundamentally

reordering the Department's program and managerial priorities will sharpen the focus of the agency providing a higher level of efficiency and service to HUD customers resulting in increased opportunities for homeownership and affordable rental housing benefiting the American consumer.

Mr. Chairman, the NATIONAL ASSOCIATION OF REALTORS® is actively involved in working with HUD to create and expand homeownership opportunities and make available affordable mortgage credit. HUD housing programs are an important route for thousands of homebuyers and renters wishing to realize the American dream of homeownership and affordable housing and the NATIONAL ASSOCIATION OF REALTORS® is working diligently with HUD to ensure productive and beneficial national housing programs.

In particular, the NATIONAL ASSOCIATION OF REALTORS® is intimately familiar with, and a strong supporter of, the Federal Housing Administration (FHA) single-family and multifamily housing programs and we share with HUD a mutual commitment to promote and improve the availability and affordability of each. The NATIONAL ASSOCIATION OF REALTORS® is gratified to know that the Administration, and Secretary Cisneros in particular, is committed to increasing homeownership opportunities and expanding the availability of affordable rental housing and we wholeheartedly welcome the opportunity to work with them, in conjunction with the Subcommittee, to achieve their stated goals.

The NATIONAL ASSOCIATION OF REALTORS® shares with HUD a new emphasis on housing and community development because our communities and neighborhoods are the backbone of our country and have served as the foundation for the economic well-being of our nation. As a housing entity that understands well the homeownership problems within our communities, we endorse the thrust of the Administration's legislative housing package which is the continued preservation and effective operation of FHA's single-family and multifamily housing programs, creating innovative housing initiatives to reduce homelessness and foster move-up housing opportunities, and rehabilitating and revitalizing communities to stimulate economic vitality and broaden service opportunities.

FHA SINGLE FAMILY HOUSING

Mr. Chairman, the FHA single family housing program was established to provide a stable source of home financing in all market conditions. Its basic purpose is to encourage improvement in housing standards and conditions, provide an adequate home financing system through mortgage insurance, and exert a stabilizing influence on the mortgage market.

Historically, the program has served as a hallmark for homeownership enabling hundreds of thousands of families to achieve the "American dream" and purchase a home. Created in 1934, FHA was established in response to the general lack of private mortgage insurance during the Great Depression. Coupled with the VA Home Loan Guaranty Program in 1945, both programs were the principal sources of mortgage insurance until the 1970's when the volume of private mortgage insurance rose dramatically due to FHA's cumbersome operating procedures and the interest rate administered on FHA-insured mortgages.

Throughout the 1980's, Congress approved legislation intended to address the problems inherent in the FHA program and ensure its continued financial soundness and market viability. However, some of the changes, particularly the institution of the up-front mortgage insurance premium, fostered homeownership obstacles contributing to the decreased viability of the Mutual Mortgage Insurance Fund (MMIF) and weakening market appeal.

In recent years, a number of program changes have again been made to the FHA program to address losses to the MMIF that principally stemmed from economic conditions and program mismanagement. Basically, the reform measures included increasing mortgage insurance premiums, establishing a risk-based premium structure, and increasing borrower equity requirements.

While the intent of the reforms was to preserve the financial solvency of the MMIF and the market viability of FHA, the effect of the program changes have further reduced the market share of FHA. In fact, in recent testimony before this Subcommittee, Assistant Secretary for Housing-FHA Commissioner Nicolas P. Retsinas noted that the FHA reforms contributed to a decline in FHA market share, from 20 percent of home transactions in 1990 to 13 percent in 1993. The imposition of new fees and standards not only caused the loss of low risk business that is vitally needed for the successful operation of the MMIF, but it also excluded from participation many first-time homebuyers and moderate-income families that the program was intended to serve.

Recognizing the severity of the program changes to FHA's mandate to provide affordable housing to low- and moderate-income Americans, the Clinton Administration has embarked in a new direction to restore FHA's role in the marketplace and extend homeownership opportunities to many underserved buyers. Clearly, this is a direction that the NATIONAL ASSOCIATION OF REALTORS® strongly endorses and we encourage the Subcommittee's support.

Mr. Chairman, the philosophy of this Administration is reflected in its blueprint housing legislation, "The Housing Choice and Community Investment Act of 1994," and the NATIONAL ASSOCIATION OF REALTORS® strongly believes the FHA proposals contained therein will, without question, enhance the viability and accessibility of the FHA program broadening usage in all market areas and stimulating affordable housing opportunities. On behalf of the NATIONAL ASSOCIATION OF REALTORS® I welcome the opportunity to share our comments regarding these important provisions.

Increasing the Maximum Mortgage Limit

Mr. Chairman, HUD's housing legislation proposes to increase the FHA single family mortgage insurance limit for high-cost areas to 85 percent of the Fannie Mae/Freddie Mac conforming loan limit, adjusted annually. The NATIONAL ASSOCIATION OF REALTORS® strongly supports this proposal because it achieves three principal homeownership objectives: 1) it makes owning a home a viable option for many more families nationwide; 2) it extends the FHA program to stronger market areas bringing in lower-risk loans to the FHA MMIF; and 3) it

significantly improves the financial reserves of the MMIF by raising premium income, reducing claims, and decreasing losses per claim.

Mr. Chairman, the NATIONAL ASSOCIATION OF REALTORS® has long maintained that the FHA high-cost loan limit should be adjusted to reflect home price appreciation in our nation's high-cost housing markets. Adjusted accordingly, this will allow qualified moderate-income homebuyers in high-cost areas to share in the benefits of homeownership through the FHA program that FHA users in other regions of the country now enjoy.

Mr. Chairman, NAR has undertaken an exhaustive examination of the impact of increasing the maximum mortgage amount on our nation's 90-odd million households. Our research examined whether a household could qualify for a mortgage equal to 95 percent of the median house price in their area. We first identified those families who cannot qualify for a conventional mortgage because they do not satisfy conventional underwriting criteria. We then identified the subgroup of families who can qualify for an FHA mortgage. In other words, these are households who can afford a house priced at 95 percent of the median price in their area, but can purchase it only if they can take advantage of the relatively easier underwriting guidelines available through the FHA mortgage insurance program.

After identifying the households who qualify for an FHA mortgage, but not a conventional one, we examined how many of these families cannot use the FHA program because the mortgage they would need exceeds the FHA loan limit in their area. Table 1 shows that raising the top loan limit would increase by more than a quarter of a million households the number who could afford to purchase a home in high-cost areas. This is particularly true in the Northeast and the West. The NATIONAL ASSOCIATION OF REALTORS' Existing Home Sales database, which collects prices of existing homes sold throughout the country, shows that the median price in the U.S. in 1993 was \$106,800. However, in the Northeast, the median price was \$139,500 and in the West was \$142,600, significantly higher than the comparable regional medians for the Midwest and South which were \$85,200 and \$95,000, respectively.

This pattern is even more evident in the median home prices for metropolitan areas in the Northeast and West, compared to the Midwest and South. For example, the median home sales price in the New York/Northern New Jersey/Connecticut metropolitan area is \$173,00, while in Los Angeles it is \$197,900, both of which are well above the current maximum mortgage limit of \$151,250. Comparatively, the highest median price in the Midwest is in Chicago, at \$143,000, and in the South is in West Palm Beach, Florida, at \$114,600. (The Washington, DC, area, with a median of \$158,300, is an anomaly in the Southern census region.) Thus, raising the maximum high-cost area loan limit will make FHA more equitable, because moderate- and middle-income families living and working in those high cost areas will be able to use the program just as their counterparts in lower-cost areas are able to.

Contrary to the arguments of those who contend that increasing the loan limits will further the housing needs of high-income borrowers, we believe the proposal returns FHA to its original mission and provides an important benefit to thousands of average-earning American families currently "locked out" of housing opportunities. Our research continues to demonstrate that the

FHA program typically serves first-time buyers who have lower annual incomes, make smaller down payments and purchase less expensive homes than those served by the conventional market. Additionally, HUD income characteristics based on 1992 statistics show that the FHA borrower median income was \$37,200 compared to the national median of \$39,700. Moreover, 44 percent of FHA borrowers in 1992 had family incomes below \$35,000 and 16 percent of FHA borrowers had family incomes below \$25,000. As a result, FHA has proven to be, and must continue to be, the financing tool for mainstream American workers -- teachers, police officers, firefighters, and postal workers -- seeking to purchase modest homes throughout all regions of the country.

By helping more households gain entry to homeownership through increased loan limits, the financial position of the MMIF will strengthen significantly reducing the likelihood of net outlays to the MMIF in the future. Mr. Chairman, you may recall a Price Waterhouse study completed in 1990 for the General Accounting Office (GAO) that concluded that increasing the loan limit would dramatically improve the reserves of the MMIF. The Price Waterhouse analysis determined that the increased ceiling would provide larger cash reserves for the MMIF because: 1) the Fund would receive greater premium income through more insured mortgages; and 2) default and loss rates would be lower for higher balance loans.

The thrust of the report was that increasing the mortgage limit will broaden usage of the program in terms of serving borrowers in more areas and also in terms of the range of borrowers who would buy homes that could qualify under the program. The NATIONAL ASSOCIATION OF REALTORS® believes this "cross-subsidization" is a necessary ingredient to the immediate success of the FHA program and a tremendous element to the continued financial solvency of the MMIF. The cross-subsidy by relatively low-risk mortgages to relatively high-risk mortgages in the MMIF allows borrowers with little cash for a down payment to obtain a mortgage with an affordable mortgage insurance premium.

Increasing the Base Loan Limit

Mr. Chairman, in conjunction with raising the maximum mortgage insurance limit, HUD is proposing establishing a new "floor," or base, limit tied to the average sales price data employed in the Mortgage Revenue Bond program, adjusted annually. The NATIONAL ASSOCIATION OF REALTORS® applauds HUD's initiative.

Currently, the base loan limit is \$67,500; however, increasing this limit would tremendously enhance FHA's ability to assist first-time homebuyers in areas not defined as high-cost but where home prices are in excess of \$67,500. The NATIONAL ASSOCIATION OF REALTORS® anticipates the entry of young families with good credit histories who have had difficulty meeting the more stringent requirements of the conventional mortgage market.

To illustrate, the NATIONAL ASSOCIATION OF REALTORS® examined the impact of increasing the base loan limit to \$100,000 which is approximately 95 percent of the median sales price in the U.S. Currently, 1.6 million households in the U.S. can qualify for an FHA mortgage but not for a conventional mortgage. As Table 1 shows, our research determined that increasing the base loan limit to approximately 95 percent of the area median would permit more than 1.46

million additional families to qualify for an FHA mortgage, furthering the goal of affordable homeownership opportunities.

The impact of raising the base to 95 percent of the national median home price is particularly keen in the Midwest and South regions of the country where housing is generally less expensive than the highest-priced markets. If the base limit were \$100,000, nearly 495,000 additional families in the Midwest and nearly 565,000 additional families in the South would be able to use the program.

The NATIONAL ASSOCIATION OF REALTORS® believes increasing the maximum mortgage limit and the base loan limit will have a positive effect on the actuarial soundness of the MMIF. Raising the minimum floor from \$67,500 will increase the quality of FHA's portfolio while increasing the ceiling in high cost areas will broaden the availability of mortgage financing to deserving borrowers.

Single Family Risk-Sharing

The NATIONAL ASSOCIATION OF REALTORS® supports the Administration's proposal for a single family risk-sharing mortgage insurance program. We believe that risk-sharing will enable States to creatively and innovatively address their respective housing affordability problems, and this will be done at only a small risk to the federal government.

The legislation specifically mentions areas of the country, such as California, where the FHA single family program cannot be used because of high home prices. The current median price of a home in California is \$180,380, and only 44 percent of households can afford to purchase a median priced home. State Housing Agencies have proven track records of insuring mortgages and are fiscally responsible with stringent underwriting guidelines. HUD is statutorily limited in their ability to work with States to insure these mortgages through risk-sharing.

Innovative Financing for Mortgages

Mr. Chairman, the NATIONAL ASSOCIATION OF REALTORS® applauds HUD's initiative providing favorable mortgage financing to eligible home purchasers in revitalized communities. We believe the proposal will greatly enhance affordable housing opportunities and provide a source of mortgage credit to underserved urban areas. Clearly, the NATIONAL ASSOCIATION OF REALTORS® supports the thrust of the initiative which is to revitalize housing in our distressed urban neighborhoods and communities and add a viable Federal affordable housing tool to complement the economic development activities of state and local government.

Very simply, Mr. Chairman, the NATIONAL ASSOCIATION OF REALTORS® believes homeownership opportunities must be stimulated and matched with new job growth and investment opportunities if we are to successfully enhance the ability of our urban communities to improve their economic well-being. Further, we believe the partnership that HUD is establishing

with our state and local communities is a necessary ingredient to increase productive investment, jobs, and housing in cities with severe long-term economic problems.

The principal feature of the initiative is that prospective buyers whose incomes do not exceed 115 percent of area median income will receive 100 percent financing on the home in neighborhoods targeted for revitalization. To mitigate the potential for defaults, HUD is requiring that prospective mortgagors meet certain credit guidelines and undergo prepurchase counseling involving homeownership responsibilities, money management, and household maintenance. Further, to lessen potential financial liability to the federal government, a limitation of 10 percent of the previous year's single family mortgage insurance volume is being instituted and the program will be insured under the General Insurance Fund precluding any impact to the MMIF.

While detractors may scoff at the notion of providing a no-downpayment loan product in revitalized areas, we believe the proposal is innovative and warrants serious consideration as a viable homeownership vehicle created to uplift blighted neighborhoods.

As a point of reference, precedent has been established for creating a no-downpayment mortgage loan product in recent years. You may recall, Mr. Chairman, in 1990 as part of your comprehensive National Affordable Housing Act, the Subcommittee approved the Farmers Home Administration Section 502 guaranteed loan program to stimulate housing in underserved rural areas.

The program features no-downpayment loans, favorable loan terms, and is geared to low- and moderate-income families in rural areas. The NATIONAL ASSOCIATION OF REALTORS® worked closely with the Subcommittee and FmHA in developing the program and we are very pleased with its overwhelming success as evidenced by almost 22,000 homeownership loans approved by FmHA in the program's brief history. Mr. Chairman, the NATIONAL ASSOCIATION OF REALTORS® envisions similar success with HUD's initiative and we are confident that the Department and Office of Management and Budget have taken the necessary precautions to develop a financially responsive model product.

Innovative Affordable Housing Demonstrations

Mr. Chairman, HUD's legislation seeks authority to establish creative housing demonstrations utilizing alternative mortgage instruments principally through partnerships with Fannie Mae, Freddie Mac, the Federal Home Loan Banks and state and local housing finance agencies. The NATIONAL ASSOCIATION OF REALTORS® is intrigued by the initiative because it has the potential to improve housing affordability conditions for our nation's households.

Over the last decade, spiraling housing costs coupled with lagging income growth created a huge affordability gap for first-time homebuyers and low- and moderate-income persons. Although the low interest rates of the past several months have helped many families afford to purchase a home, interest rates have begun to rise meaning that many families saving to purchase a home will again confront obstacles in their effort to qualify for and obtain a mortgage.

By drawing on the expertise of other housing entities, the NATIONAL ASSOCIATION OF REALTORS® believes successful mortgage products at the local level or within private industry can be applied at the Federal level and adapted to stimulate affordable housing nationwide. We believe this approach exemplifies the true spirit of public/private partnership and must be encouraged to benefit the American consumer.

ADDITIONAL FHA SINGLE-FAMILY RECOMMENDATIONS

Mr. Chairman, the NATIONAL ASSOCIATION OF REALTORS® welcomes the opportunity to share its comments regarding modifying the current premium structure to further streamline the FHA program and return it to the mainstream as a viable homeownership vehicle. NAR favors a non-refundable, one percent upfront premium and an annual premium of 50 basis points for the life of the loan.

A principal concern of the NATIONAL ASSOCIATION OF REALTORS® is the conversion of FHA in 1983 to an upfront premium structure that requires the payment of the MIP in advance rather than "pay-as-you-go." While the intent of the premium structure reforms in the National Affordable Housing Act were sound -- to lower the LTV of new FHA "books of business" -- the consequences have proved troubling.

The Act increased the overall premium structure, reimposed an annual premium, and made it more complicated through the imposition of a risk-based add-on for all FHA borrowers, with higher premiums for higher loan-to-value mortgages. This approach abandoned a fundamental principle that had been the core of the FHA program: all borrowers paid the same premium since the program's inception thereby balancing risk and establishing cross-subsidization within the MMIF.

The NATIONAL ASSOCIATION OF REALTORS® believes converting the MIP to require an upfront, nonrefundable premium of at least 1 percent, with an annual renewal premium for the life of the loan collected monthly, will more closely match premium income with the risk that each loan represents. By making the initial premium nonrefundable, FHA will cover default risk in the initial years of a mortgage. This will also allow for a better pricing of the annual premium since the risk to the MMIF of the early years of the mortgage is captured upfront.

NATIONAL HOMEOWNERSHIP TRUST

The NATIONAL ASSOCIATION OF REALTORS® has been a strong supporter of the Homeownership Trust since the idea was first introduced by you, Mr. Chairman, in the late 1980's. In subsequent years we have supported appropriations for the Program as well as its reauthorization. While we remain supportive of the program we do have concerns regarding the Administration's proposal to eliminate interest rate assistance. We believe that this program can balance the needs of potential homeowners who have difficulty coming up with a down payment as well as those who have the downpayment but would be better served by a lower monthly payment.

Interest rates are extremely important when we analyze housing affordability and the number of first time homebuyers who can make that initial purchase. The Census Bureau's publication, *Who Can Afford to Buy a House in 1991?*, reports that an increase in mortgage interest rates by one percentage point using FHA financing reduces the number of families who can buy a median-priced home by 741,000. An increase in mortgage rates of that magnitude would even prevent 503,000 families from being able to afford a "modestly-priced home", i.e., a home that is more likely to be affordable by first-time buyers. It is in times of higher interest rates that the need for the National Homeownership Trust Program would likely peak. Interest rates have been at a very low level for several years and the need for subsidized interest rates has been minimal. However, as you can see from the example above, if interest rates increase by as little as one percentage point, the effect is dramatic.

Lastly, since it was first proposed, this program was meant to assist qualified first-time homebuyers in meeting their mortgage obligations. We applaud you Mr. Chairman for your continued work toward that goal and the Administration for their support. We commend the Administrations proposals to use the National Homeownership Trust to help families to make downpayments, pay closing costs, obtain second mortgages, and provide other assistance to first-time home buyers. Pre-purchase counseling working in conjunction with cash grants will significantly improve the chances of families to purchase a home. Now more than ever, the rising costs of a home purchase are keeping young households from taking their first step onto the housing ladder. Funding for this program can be the key to helping them on their way to a better lifestyle.

CONCLUSION

In closing, Mr. Chairman, the NATIONAL ASSOCIATION OF REALTORS® thanks you and the Subcommittee for the opportunity to testify on FHA single family housing programs. We look forward to working with you further in the development of the 1994 housing reauthorization bill, and we share your commitment to the preservation and effective operation of the Federal government mortgage programs. Thank you.

TABLE 1

THE NUMBER OF FAMILIES SERVED BY PROPOSED CHANGES TO FHA:

For a mortgage equal to 95% of area's median home sales price:

	U.S.	Northeast	Midwest	South	West
The number of families who can qualify FHA but not conventional is:					
Under current FHA loan limits	1,674,574	211,100	492,353	659,988	311,133
When top limit is raised to 85% x conforming limit	1,950,811	435,388	492,353	659,988	363,082
When base loan limit is raised to \$100,000	3,136,070	361,415	986,846	1,224,864	562,945
So the number of families able to enter the market for a home is:					
When:					
Top limit is raised to 85% of conforming limit	276,237	224,288	0	0	51,949
Base loan limit is raised to \$100,000	1,461,496	150,315	494,493	564,876	251,812

Questions for Mr. Rick Adams
National Association of Realtors
From Chairman Henry B. Gonzalez
Hearing on May 5, 1994

1. Your recommendation to modify the current premium structure is very interesting and will help us as we attempt to make the single family program more user-friendly. What other difficulties does a borrower face as a result of the way in which the program is structured?
2. As a realtor in San Antonio, can you describe your first-hand experiences with the program and your insights as to how the program may be expanded to serve more low- and moderate- income people in your area?

NATIONAL ASSOCIATION OF REALTORS® May 27, 1994

Response to questions submitted by Congressman Gonzalez regarding the testimony presented by Rick Adams on May 5, 1994:

1. Another difficulty facing borrowers in the current FHA single-family mortgage insurance program is the complicated process of determining if the borrower can qualify for the mortgage needed to purchase the home. The calculation of the maximum FHA mortgage (or minimum downpayment) is very complicated. Requiring the consumer to make two separate calculations and using the lesser of these calculations as the minimum downpayment has resulted in mortgage lenders steering consumers to the conventional mortgage market rather than spend the time to make multiple calculations and then explain what they did to the consumer.

Stating this another way, the downpayment determination process needs to be simplified so that the consumer can easily understand how the downpayment is determined and Realtors and lenders can easily calculate it. To do this, we suggest that the minimum mortgage equity requirement be eliminated from the program as has been suggested by FHA Commissioner Nicholas Retsinas. His proposal would eliminate the minimum mortgage equity requirement, change the minimum downpayment calculation to 1 percent of the first \$50,000, 3 percent of the loan from \$50,000 and \$125,000, and 5 percent of the loan balance above \$125,000. In addition, this proposal would not allow financing of closing costs in the mortgage.

2. I have been a realtor and a mortgage banker for more than 15 years and have used the government mortgage program in more than 80% of my transactions. In Texas, FHA has allowed homeowners with little cash to move from renting to purchasing a home of their choice.

In the San Antonio area, the median existing home sale price was \$77,000 in 1993. To expand the program to serve more low and moderate income people in that area, I would suggest that the base loan limit be increased. Increasing the base would allow the entry of young families with good credit histories who have had difficulty meeting the more stringent conventional mortgage market requirements.

I would also recommend that HUD be given the ability to test innovative mortgage financing tools in urban areas that are underserved by mortgage credit. As you will recall, the Texas area was hit hard with the recession in the 80's, and it has taken almost 10 years to bounce back -- in fact, we are not quite there yet. To further the economic growth Texas is having now and to prepare for future downturns in the economy, HUD needs to have the authority to create new programs that will increase productive investment, jobs, and housing in cities which have experienced severe economic problems.

I also believe a precedent has been established in Texas to create a no-downpayment mortgage loan product. The principal feature of this initiative is that prospective buyers whose incomes do not exceed 115 percent of area median income will receive 100 percent financing on the home in neighborhoods targeted for revitalization.

May 5, 1994 Hearing

Questions submitted by Cong. Roukema

For Mr. Rick Adams, National Association of Realtors

1. On page 5, you state that the increase in loan limits will restore FHA to meeting the needs of average Americans, including those workers in high-priced cities. Yet, other witnesses have testified that it takes an income well above the area median income to afford some of these homes between \$172,000 and \$203,000. How do we rationalize to the American people that FHA, which is supposed to assist low and moderate income people does not, in fact, benefit the wealthy, particularly those making approximately \$60,000 per year?

2. Could you explain why those families "locked-out" of the homebuying market are particularly excluded from the private-sector?

NATIONAL ASSOCIATION OF REALTORS® May 27, 1994

Response to questions submitted by Congressman Roukema regarding the testimony presented by Rick Adams on May 5, 1994:

1. NAR supports increasing the maximum FHA loan limit to 85% of the conforming conventional loan limit because it will assist low- and moderate-income people in the places where housing costs are the highest. The conventional limit is currently at \$203,150, so that this proposal would increase the maximum loan limit from \$152,363 to \$172,678, a 13% increase in the loan limit. Note that this is not a proposal to increase the FHA loan limit to the conforming loan limit.

This change will not assist higher-income people because in the areas where it applies, higher income people do not generally purchase homes at the prices feasible with FHA. The maximum FHA loan limit does not apply to most regions of the country, but where it does come into play, a limit that is too low has substantially restricted the availability of FHA mortgages to the people who need it most. These are hard-working families in places like the New York and Los Angeles metropolitan areas, where median home prices already exceed the existing limits.

Our data show that the median existing home price in the New York/Northern New Jersey/Long Island metropolitan area was \$173,200 in 1993, and in the Bergen/Passaic and Newark areas, prices are even higher: in 1993, they were \$188,400 and \$185,100, respectively. Similarly in Los Angeles, the 1993 median price was \$197,900. Hence, families who live and work in these high-cost areas are not likely to find homes they can afford with a mortgage of only about \$152,000, so FHA is not an option available to them. Frequently, that means that homeownership is out of their reach.

It is important to highlight the fact that the maximum FHA loan limit applies to home buyers in areas that HUD has designated as "high cost" areas and for which 95% of their local median home price is above the maximum loan limit. Most "high cost" metropolitan areas have loan limits that are equal to 95% of their area median home prices, rather than the maximum limit. However in markets like those in New York and Los Angeles, the maximum limit applies. Raising the maximum will therefore restore the availability of FHA to moderate-income families who can otherwise not obtain a mortgage on the homes available for sale.

2. Our estimates of the number of "locked out" families reflect the differences between the underwriting guidelines of the conventional mortgage market and FHA on a family's ability to afford to buy a home. These estimates were obtained by first determining which families *cannot* obtain a conventional mortgage for a home priced at 95% of the median price in their area. Among those families, the ones who *can* qualify for an FHA-insured mortgage were then identified. Since FHA lending guidelines are less stringent than conventional ones, many families fall into this category. Finally, the loan limit applicable in each family's area is compared to the mortgage they would need to purchase such a home. If the necessary mortgage is greater than the loan limit, then that family is considered to be "locked out" of homeownership because of FHA loan limits.

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The National Association
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STATEMENT OF
STEPHEN B. ASHLEY, CMB
CHAIRMAN AND CEO
SIBLEY MORTGAGE CORPORATION
ROCHESTER, NEW YORK
on behalf of the
MORTGAGE BANKERS ASSOCIATION OF AMERICA
before the
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
of the
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES
Hearing on
Housing and Community Development Reauthorization
Federal Housing Administration
Single Family and Multifamily Programs
May 5, 1994

Mr. Chairman and Members of the Subcommittee, I am Stephen B. Ashley, Chairman and C.E. O. of Sibley Mortgage Corporation located in Rochester, New York. I am also currently serving as President of the Mortgage Bankers Association of America (MBA).¹ Accompanying me today are Michael J. Ferrell, MBA's Senior Staff Vice President and Legislative Counsel, Sharon M. Canavan, MBA's Deputy Legislative Counsel, and Robert Josephs, MBA's Associate Legislative Counsel.

MBA appreciates the opportunity to appear before you to comment on the Administration's proposals to reauthorize the Department of Housing and Urban Development's (HUD) Federal Housing Administration (FHA) single family and multifamily mortgage insurance programs. To meet its mission of serving low-, moderate-, and middle-income homebuyers and to maintain a fiscally strong FHA insurance fund, FHA should move to improve its operations in a number of areas. There should be two main thrusts for these proposals: first, to enhance mortgage credit opportunities for low- and moderate-income persons and, second to improve the FHA program by streamlining it to make it easier for the public to understand and the industry to comply with.

Mortgage bankers originate approximately 75 percent of FHA loans and nearly 50 percent of all mortgages in recent years. MBA believes that we have a unique insight into what has made the program successful in serving over 20 million families throughout its history as well as what needs to be done to ensure that FHA provides homeownership and rental opportunities to deserving low-, moderate-, and middle-income families in the future.

HUD has transmitted legislation entitled the "Housing Choice and Community Investment Act of 1994" to Congress, which was introduced in the House on April 28, as HR 4310. That legislation includes a variety of proposals amending FHA single and multi-family insuring authority on which MBA would like to comment. On February 10, the Chairman introduced HR 3838, the "Housing and Community Development Act of 1994." Our testimony also includes a number of legislative initiatives that we believe are worthwhile to consider as well as recommendations for legislative action to deal with a variety of concerns that MBA has identified.

Single Family Program Improvements

Demonstration Program in Revitalization Areas

Homeownership opportunity is essential in revitalizing decimated urban areas. For first-time homebuyers in targeted areas that are currently underserved, Section 301 of the bill establishes a new Section 256 FHA no-downpayment mortgage insurance demonstration program for revitalization areas. The maximum mortgage amount would be \$67,500 or 75 percent of the applicable high cost area limit. Borrowers would pay a monthly mortgage insurance premium (MIP) of .55%, but the upfront premium would be deferred until loan prepayment. The program would be limited to first-time home buyers with incomes below 115% of the median area income. In order to minimize risk, borrowers would have to undergo mandatory prepurchase counseling, which would cover homeownership responsibilities and financial management.

¹ The Mortgage Bankers Association of America is a nationwide organization devoted exclusively to the field of residential and commercial real estate finance. MBA's membership comprises nearly 2,900 mortgage originators and servicers, as well as investors, and a wide variety of mortgage industry-related firms. Mortgage banking firms, which make up the largest portion of the total membership, engage directly in originating, selling, and servicing real estate investment portfolios.

Members of MBA include:

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Although downpayment is a determinant of risk, MBA believes that with adequate counseling borrowers can be identified who will be appropriate risks despite the lack of a downpayment. The Veterans Home Loan Guaranty program has operated for many years as a no-downpayment program with a default rate that is marginally better than the FHA mortgage insurance program.

It is clear that this program should be designed carefully so as not to affect a neighborhood negatively because of borrower default and/or abandonment. The proposal limits the program to no more than 20 percent of the dwelling units located in a revitalization area. Further, Section 301 authorizes use of this program only in neighborhoods otherwise targeted for revitalization using "coordinated affordable housing programs and enhanced supportive services." Finally, use of the program is limited to no more than 5 percent of the Title II loans made by FHA in the previous year, with an additional 5 percent at the Secretary's discretion for properties in empowerment zones or enterprise communities.

Also, Section 311 amends the eligible activities under the National Housing Trust Demonstration to allow the Trust to cover all of a downpayment (previously a 1 percent downpayment had been required), to cover second mortgages, and to allow capitalization of revolving loan funds. These are all worthwhile activities that will enhance mortgage credit availability for the targeted borrower groups.

Section 311 proposes to eliminate the authority to subsidize mortgage interest rates, because as HUD points out, downpayments are the chief impediment to homeownership affordability. While this is certainly true in today's interest rate environment, it may not be true in the future. We believe that, rather than eliminating this authority, certain protections could be imposed to avoid problems which HUD has had with past programs, such as Section 235, where high interest rate loans remain on the books because the borrower has no incentive to refinance to lower prevailing market rates. We believe HUD should have the discretion to accelerate the repayment of the loan if interest rates fall 200 basis points below the mortgage note interest rate, subject to HUD's paying for the cost of refinancing the loan. This would allow HUD to require the borrower to refinance when interest rates fell and the interest subsidy need not continue to be paid by HUD or the local government authority administering the Trust program.

Increased Maximum Mortgage Amount

MBA strongly supports an adjustment in the across-the-board applicable mortgage amount, which has been set at \$67,500 since 1979. Without regard to area median sales price, mortgages may presently be insured up to \$67,500. Section 302 would amend current law to allow insurance up to the greater of \$67,500 or the average area purchase price under the Mortgage Revenue Bond program. This amount would be adjusted annually by HUD to reflect changes in the Constant Quality Housing Price Index. Although the high cost area adjustment allows FHA adequately to serve areas where purchase prices exceed that floor, HUD must expend a great deal of resources compiling the necessary area-by-area statistics in order to derive the applicable area limit.

In 1979, the weighted (new and existing) average home price was \$65,237. In 1993, the weighted average home price was \$135,255. If the across-the-board limit of \$67,500 had been adjusted to reflect increases in the Constant Quality Index over the last fifteen years, the resulting level would be \$115,030. If that amount had been instead adjusted for inflation over the same period it would stand at \$127,992 at year-end 1993.

Without having had time to analyze the impact of the proposal in Section 302 to adjust the across-the-board limit, MBA would like to express some concern that by creating a different number for each state, this proposal increases the complexity of the FHA program. MBA believes that simplifying the FHA program is an important objective. After further analysis of HUD's proposal,

MBA will forward to this Committee its recommendations on an alternative, nationwide across-the-board limit.

MBA also supports the provision of Section 302 that amends the high cost area formula for establishing the maximum mortgage amount for FHA single family insured loans. This provision increases the ceiling from 75% to 85% of the Federal Home Loan Mortgage Corporation (Freddie Mac) mortgage purchase amount and allows the amount to be indexed annually to reflect potential increases in the Freddie Mac limit. Eliminating the ceiling (now set at \$151,725) permits deserving borrowers in high-cost areas to find mortgage financing more easily. The FHA program would still be targeted to the *lower half* of the market by the formula that sets limits at 95% of area median sales price.

MBA supports an increase in the Section 203 high-cost mortgage limits because, as with any insurance company, FHA must spread its risk of possible loss. FHA data indicate that higher balance loans have much lower claim rates than low balance mortgages. While MBA believes that mortgage limits play a legitimate role in targeting FHA activity, the limit must be reasonable to allow FHA to tap lower risk markets. Among the findings in the 1993 Price Waterhouse report was a conclusion that there has been a *significant inverse relationship* between loan size and default risk in existing size categories of FHA loans (*emphasis added*).

Despite the concern voiced that increasing mortgage limits will cause lenders to concentrate on high balance loans, the FHA statistics clearly demonstrate otherwise. The FHA high cost increase was first implemented in 1983 and subsequently increased incrementally in 1987, 1990 and 1992. Despite these increases, the percentage of both lower and moderate income home buyers served by the program has continued to increase, as noted in the GAO report.²

Income Categories of FHA Borrowers Nationwide

Year of Origination	Percentage of FHA Borrowers By Income Category		
	Low	Moderate	High
1971	12	38	50
1976	13	43	44
1981	9	29	61
1986	11	38	52
1991	24	41	35

Despite the fact that the FHA maximum mortgage amount in high cost areas has been increased several times since 1983, the difference between the median income of FHA borrowers and the U.S. Median Income has tightened dramatically, particularly when compared to the last twenty years, as demonstrated in the next table.³ These statistics demonstrate that FHA is clearly serving the lower end of the market and that the income of the borrowers that FHA is insuring is declining when compared against the profile of borrowers that FHA served prior to 1983. (It should be noted that historically high interest rates between 1979 and 1983 resulted in higher average incomes, because only borrowers with higher incomes could afford mortgages at those prevailing interest rates).

² *Housing Finance: Characteristics of Borrowers of FHA-Insured Mortgages*, GAO/RCED-94-135BR, April 1994, at page 24.

³ *Ibid.*, at page 26.

**Difference Between the Median Income
of FHA Borrowers and U.S. Median Income**

<u>Year</u>	<u>Percentage Difference</u>	<u>Year</u>	<u>Percentage Difference</u>
1971	21.9	1981	33.2
1972	15.6	1982	41.5
1973	5.8	1983	33.9
1974	10.1	1984	23.0
1975	20.8	1985	25.5
1976	13.9	1986	21.5
1977	11.0	1987	15.4
1978	11.2	1988	10.0
1979	14.7	1989	5.9
1980	23.1	1990	6.2
		1991	4.7

Innovative Demonstration Program Authority

Presently, FHA has two basic single family mortgage insurance products--the fixed rate mortgage and a one-year adjustable rate mortgage (ARM). One of the original legislative purposes of FHA was to provide innovation in mortgage credit and with that mandate FHA led the way in establishing market dominance for the 30-year fully amortizing mortgage.

MBA supports Section 304, which provides innovative demonstration program authority for FHA. Section 304 limits HUD's demonstration program authority by allowing an innovative program to be conducted for up to 3 years. Total innovative demonstration program authority would be limited to no more than 10 percent of the volume in the FHA single family program in the previous year. No single demonstration program could exceed 5 percent of FHA's single family volume for the prior year.

MBA believes that HUD should be given the authority to set up demonstration programs to test new mortgage products without specific legislative program authority. In this way, the Federal Government can take a leadership role in developing products with adequate consumer safeguards, and eliminate such problems as those that took place with the development of ARMs (e.g., teaser rates, negative amortization, and payment shock).

In the event that Congress does not authorize innovative demonstration program authority, MBA recommends that a new section should be added to Title II that would give HUD the authority to originate "two step" mortgages. Recently, the market has developed a variety of "two step" mortgages which have lower initial rates than fixed rate mortgages and have lower risk than one-year ARMs. The payment stays the same for the first 5 or 7 years and then changes to a market rate for the remainder of the term. "Two step" mortgages have lower initial rates than 30-year term mortgages and less risk than one-year adjustable rate mortgages. These instruments would give FHA borrowers the same choices currently available to conventional borrowers.

Single Family Risk Sharing Program

Section 305 proposes to establish a new program, Section 257, to expand the role for state and local housing finance agencies (HFAs) to allow risk sharing between FHA and state established mortgage insurance programs. A number of states, particularly in high cost areas, have established their own mortgage insurance programs.

Under the proposal, FHA would insure up to the area maximum mortgage amount and the state

mortgage insurance program would insure the balance above the FHA limit up to a ceiling, which would be the Freddie Mac mortgage purchase limit. Each state or local HFA could set its own underwriting standards, loan terms, and conditions, subject to certain FHA statutory prohibitions, including no investor loans and the requirement for credit underwriting on assumptions. Certain restrictions would apply to loans within this program. They would not be eligible for the HUD assignment program and they could not be placed in Ginnie Mae mortgage-backed securities.

State and local HFAs are increasingly sophisticated and have proven track records as mortgage program administrators under the mortgage revenue bond and mortgage credit certificate programs. MBA believes this proposal has merit because it would allow HFAs to continue to play a role in addressing housing needs, particularly in high cost markets, if no adjustments are made to the FHA maximum mortgage amount.

However, MBA strongly believes that just as the FHA mortgage insurance program operates as a working partnership between lenders, who act as originators and loan servicers and the Federal government, with FHA acting as the mortgage insurer, this program should likewise restrict the role of the HFA to that of an insurer. Mortgage lenders should originate and service these loans on behalf of HFAs, as is the case with FHA mortgage insurance. This separation of functions provides appropriate checks and balances in the process and affords FHA more protection of its interests as a primary insurer.

Soundness of the FHA Mutual Mortgage Insurance Funds (MMIF)

Both Congress and HUD have implemented major changes to reform the Federal Housing Administration's (FHA) single family mortgage insurance program. Since 1986, FHA has made over 30 underwriting and management improvements to reduce risk in its programs. These improvements culminated with the passage of the "HUD Reform Act of 1989" (P.L. 101-235), which banned investor loans and required all borrowers assuming FHA existing loans to undergo credit reviews. In its 1992 audit, Price Waterhouse stated that, "As of the end of fiscal year 1992, post-1986 books of business accounted for approximately 75 percent of the Fund's insurance-in-force. Their financial performance to date has been superior to that of previous books. We attribute their superior termination performance to stricter underwriting standards for books of business originating after 1986."

However, in 1990, Congress passed further sweeping changes to the FHA homeownership program in the "Cranston-Gonzalez National Affordable Housing Act" (P.L. 101-625), significantly altering the premium and financing structure of FHA single-family loans insured under the Mutual Mortgage Insurance Fund (MMIF).

The FHA audit of Fiscal Year 1992 Financial Statements, which was issued on April 30, 1993, and the July 9, 1993, actuarial analysis of the economic net worth and soundness of the MMI Fund offer compelling evidence that the FHA program is in far better shape than had been previously reported and that this improvement was well underway before the 1990 legislative changes were implemented in the last quarter of FY 1991.

The upcoming audit reports are anticipated to have more good news to point to FHA's continuing health and HUD in recent testimony indicated that the FHA capitalization ratios would be met this year. It is noteworthy that much of the improvement in FHA's portfolio is due to loans insured prior to the implementation of the 1990 legislation. While we are pleased by FHA's turnaround, as evidenced in these reports, MBA is concerned that the 1990 changes implemented in the spirit of reform, particularly the higher premium structure, have created serious structural problems for FHA and could seriously jeopardize the long term solvency of the FHA program.

FHA Borrower Profile

MBA is concerned that FHA's role in serving first-time and moderate-income homebuyers has declined. The percentage of first-time homebuyers using the FHA program has declined dramatically to 45 percent in the first quarter of 1993. It had been over 80 percent as recently as 1990. An April 1994 GAO study showed a sharp decline in the percentage of FHA borrowers under 30 (most of whom are first-time buyers) for FHA in 1991 although the conventional market experienced only a marginal decline during the same time period (see table below). That same report demonstrates the important role that FHA plays in ensuring mortgage credit for this age group, with FHA dramatically outpacing the conventional market.⁴

Percentage of FHA Borrowers and of All Home Buyers Under 30

Year of origination	Percentage under 30	
	FHA Borrowers	All Home Buyers
1980	55.60	29.19
1985	36.35	28.73
1986	33.99	28.05
1987	36.35	27.37
1988	42.41	26.23
1989	41.40	25.08
1990	41.08	24.45
1991	37.86	23.81

MBA also believes many FHA management and operational issues have been neglected in recent years and must also be addressed. Most notably, FHA does not have the staff resources to provide timely service. Also, FHA administrative processing steps are duplicative of steps performed by the industry or other government agencies and are thus unnecessary. Finally, certain FHA requirements discourage the use of FHA programs by the very people they were designed to help.

Recommendations

Streamlining Downpayment Calculation Process

MBA strongly supports efforts to simplify and streamline the FHA program. MBA believes that unnecessary red tape and complex requirements leave the industry and the public frequently bewildered when dealing with FHA. The complexities of using the FHA program only discourage individuals from using the program unless they have no other choice. FHA should simplify and streamline its downpayment calculation process.

The FHA downpayment calculation is the most cumbersome in the industry. Where conventional maximum loan amounts are a flat percentage (e.g. 95%) of the value of the property, FHA has a tiered system of 97% of the first \$50,000 of value and closing costs, 95% of the next \$75,000 of value and closing costs and 90% of the remainder up to the maximum mortgage amount. There is a second formula that was introduced in the 1990 housing legislation, which caps the maximum loan at 97.75% of the property's value (98.75% for properties valued under \$50,000).

MBA has several proposed recommendations to streamline the downpayment calculation process. Section 203(b)(2) should be revised to follow the method used with conventional loans (i.e. percentage of value excluding closing costs), as follows:

⁴ Ibid., at page 27.

♦ Eliminate the tiered formula entirely and use the flat percentage (97.75/98.75% of value) already contained in the law. This would essentially be risk neutral because the elimination of financing closing costs is compensated by raising the percentages. However, it would reduce downpayments for properties in high cost areas over \$125,000.

♦ Alternatively, implement a tiered percentage of the value. For example, the maximum loan amount could be 98.75% of the first \$50,000 of the value and 97% of the remainder up to the maximum loan amount

FHA Mortgage Insurance Premium Should Be Revised

MBA believes that the FHA premium should be reassessed. FHA, like any successful insurance company, must spread its risk across a broad class of policyholders. In recognition of FHA's improving financial health, HUD recently speeded up the timetable for reducing the upfront premium payment to 2.25%. However, even with this action, the current premium structure charges FHA homebuyers significantly more than premiums charged by private mortgage insurers to low risk borrowers (those with more than a 10% downpayment). This is simply noncompetitive and limits FHA to those high risk borrowers who cannot obtain financing from other sources.

The following demonstrates the difference in the net present value cost of FHA versus private mortgage insurance on a 90% loan-to-value mortgage of \$78,467 (the average FHA loan size in 1993). A discount rate of 4 percent was used in this analysis. The private mortgage insurance program used is GE's "standard coverage" level pay policy.

Under FHA, the borrower pays 2.25% up front and 0.5% annually and .5% annually over the life of the 30-year loan. The upfront cost is \$1,665.50 and the monthly charge is \$32.69. Under the private mortgage insurance, the first year's premium of .4% (\$313.87) is paid at closing. For years 2 through 10 an annual premium of 0.34% of the original loan balance is paid on a monthly basis (\$22.23). For years 11 through 30 an annual premium of 0.25% is paid on a monthly basis (\$16.35).

The resulting net present value of costs are \$8,612.79 for FHA and \$4,058.26 for private mortgage insurance. FHA is more than *twice* as costly as comparable private mortgage insurance.

A comparison of a loan with a 95% loan-to-value ratio also shows a wide pricing disparity. The net present value for the premium on an FHA loan is \$9,297.74 as compared with a the private mortgage insurance premium (using a GE program again) of \$5,648.59, which makes FHA 65 percent more expensive.

The current premium structure makes adverse selection inevitable in the FHA program. The premium should be lowered for all borrowers commensurate with FHA's improving financial performance. MBA recommends that FHA move toward the elimination of the upfront premium charged at closing. At a minimum, HUD should pursue a premium structure comparable to the private insurers in which a nominal upfront premium is collected and is not subject to refund.

Refinance Premium

Steps should be taken immediately to assess the premium necessary for refinance transactions, which carry less risk, in order to stop the runoff of these transactions. It is important to the continued health of the MMI Fund that the loans of borrowers with good payment histories stay in the program. Where the purpose of the refinance is to take advantage of lower interest rates, it lowers the debt obligation, so the refinanced mortgage is significantly less risky than the mortgage it replaces. FHA's premium structure for refinanced mortgages should reflect the lower risk.

It should also be done in order to treat FHA borrowers more fairly. The FY 1994 Budget Reconciliation Act requires HUD to speed up the rate at which premiums are earned by the FHA MMI Fund. Although the FHA upfront premium is paid at the time of closing, the MMI Fund "earns" that premium over a period of time, which is established by HUD. If a borrower prepays an FHA mortgage, the borrower receives a refund of the unearned portion of the upfront premium. Once this earnings schedule is speeded up, borrowers will receive smaller refunds. MBA believes that the premium structure for an FHA refinanced mortgage should reflect to some extent the fact that the borrower has paid all or part of the upfront premium for the mortgage that is being replaced in the refinance transaction.

An examination of the Government National Mortgage Association (GNMA) portfolio data demonstrate the runoff problem. The following chart provides a comparison of the new originations and liquidations (runoff) for the 18 months prior to the implementation of the higher premium in July 1991 and the 18 months after the premium was instituted.⁵ (There is a 3-month lag.)

**Average Monthly Ginnie Mae
Originations - Liquidations**

<u>Period</u>	<u>Originations</u>	<u>Liquidations</u>	<u>Net Change</u>
Jan. 90 - Aug. 91	71,000	42,000	+29,000
Sept. 91 - Mar. 93	84,500	95,000	-10,500

Ginnie Mae's portfolio has declined 10,500 per month for the 18-month period from September 1991 through March 1993. This decline in the portfolio indicates that quality borrowers deserted the FHA program when given the opportunity to leave.

In addition to losing 180,000 loans during this period, both FHA and Ginnie Mae have lost considerable revenue. MBA estimates that the Federal Government has lost over \$100 million in revenue as a result of the portfolio runoff.

Increase in Mortgage Amounts for Low-Income Homeownership Programs

MBA urges that the limits for the Section 221(d)(2) program should be modernized. The Section 221(d)(2) program was designed to assist lower income families in inner-city areas. The maximum loan amounts range from \$31,000 to \$42,000, depending on the size of the family and costs in the area. As a result, the low downpayments (3%) offered under this program are rendered useless. Unfortunately, this program's limits have not been raised in over 10 years. This program could be a valuable tool in expanding homeownership opportunities for lower income families. If these mortgage limits are increased MBA believes that inner-city lending can be increased significantly. Therefore, MBA recommends that Section 221(d)(2) limits be increased by 50 percent.

In a similar vein, MBA believes that the mortgage limits for Section 237, which insures borrowers with problematic credit histories, should be increased.

FHA's role in financing new construction and therefore generating jobs has diminished.

FHA only insured 54,000 new construction loans in 1992. This represents only 11 percent of FHA's purchase mortgage business (that is, refinances are excluded). Historically, new construction

⁵ Source: Ginnie Mae: 1710A and 1710E Data.

activity had been over 20 percent of FHA's mortgage insurance.

FHA proposed construction activity has declined to less than 10 percent of the new construction market. Reasons for this decline are unnecessary complications and processing delays.

MBA has several recommendations to promote FHA insurance for new construction.

- ♦ Eliminate the portion of Section 203(b)(2) that limits the maximum loan amount to 90% if property is not approved prior to start of construction.
- ♦ Eliminate the need for HUD architectural review in the construction process.

These changes would follow the processing procedures of Fannie Mae and Freddie Mac and rely on a final inspection done by the appraiser and certificate of occupancy performed by the local jurisdiction. Section 518(a), which is used very sparingly and provides for the repair of structural defects, would have to be revised accordingly.

Remove Impediments to FHA Insurance for Condominiums

Section 234(k) effectively eliminates FHA from providing insurance on recently converted buildings. When this provision was enacted in the early 1980s, there was concern that the renters would be displaced. We are unaware of any significant problems in today's marketplace involving condominium conversions. The impact of this provision has been that many converted projects have been precluded from offering FHA insurance even though condominiums are clearly an affordable housing option, particularly for first-time buyers. Therefore, MBA recommends that Section 234(k) be eliminated.

Also, with regard to condominium processing there are backlogs in many field offices. The result is that many projects cannot obtain FHA approval and borrowers, particularly lower income borrowers, are denied homeownership opportunities. MBA recommends, that notwithstanding any other provision of Section 234, FHA should accept projects approved by Fannie Mae and Freddie Mac.

Operational Improvements

There are a number of operational improvements that can be made quickly and that will entail a cost savings. Even though FHA's business activity has remained relatively constant, huge backlogs have developed in many aspects of the mortgage origination, servicing, and property disposition processes. It is frustrating to lenders and HUD staff alike that the Department is unable to provide the quality of service that is necessary to compete effectively in the marketplace.

The Direct Endorsement Program has been an unqualified success by any standard. FHA should delegate additional responsibilities to FHA lenders, including issuance of the mortgage insurance certificate and additional responsibilities in the servicing of FHA mortgages.

After the loan is closed, lenders wait months for mortgage insurance certificates from many field offices. As a result, lenders can not complete processing requirements for GNMA pools in a timely manner. It creates unnecessary costs for lenders and unnecessary administrative work for HUD.

MBA recommends that lenders should be permitted to issue their own Mortgage Insurance Certificates. This could be accomplished by a general waiver in Section 202 or 203.

Multifamily Program Improvements

Extension of Multifamily Mortgage Credit Demonstrations

Section 507 would extend the Multifamily Mortgage Credit Demonstrations created two years ago under Section 542 of the Housing and Community Development Act of 1992. With respect to the FHA Multifamily Risk-Sharing Pilot program, which is proposed to be extended through FY 1996, MBA understands that 34 housing finance agencies have applied to participate in the program. As a result, we are told, a total of 30,000 units may be awarded under the program, of which about 20,000 will be awarded in FY 1994 and the remainder in FY 1995.

Although MBA supports these demonstration programs, we are concerned about the impact they may have on the extremely limited amount of credit subsidy available for existing programs. In fact, existing FHA multifamily insurance programs have been shut down twice this year because of a shortage of available credit subsidy. The amount of credit subsidy available in FY 1994 is inadequate to cover the amounts needed for programs to continue as contemplated by Congress. Furthermore, HUD has set aside some of those limited resources to cover loans anticipated to be made pursuant to the risk sharing pilot program. We believe such funds should be used to permit existing programs to proceed as originally planned before resources are siphoned off for new experimental programs where applications have not yet been received.

Incentives to Refinance High Interest Mortgages for Section 8 Projects

MBA applauds the decision of the Department to encourage the refinancing of high interest rate mortgages. Many Section 8 new construction, substantial rehabilitation and moderate rehabilitation projects were built when interest rates were substantially higher than they are today. Many owners who would otherwise want to refinance while interest rates are still relatively low (at least by comparison to the current note rate), have been discouraged from doing so because the owner incurred substantial costs in carrying out the refinancing, and HUD walked away with all the benefit, or at least the lion's share (HUD shares only 10 percent of any savings with the owner). Section 802 proposes to pay the up-front refinancing costs to the owner when a project is refinanced under Sections 223(a)(7) or 223(f). This should be helpful in stimulating further refinancings, and thus reduce the risk of outstanding loans and reduce HUD's costs to subsidize the rents.

Elimination of New Activity in Low-Use FHA Multifamily Development Programs

Section 822 proposes the elimination of new business under six multifamily development programs. The programs are not used on a regular basis and the housing that is produced can be replicated under other programs that are more actively used. Elimination would reduce the administrative time and energy needed to maintain the programs. MBA surveyed its members in anticipation of this eventuality, and has received very few responses at this time. We would like to continue to review those comments and determine if program recommendations are called for rather than elimination before making a judgment regarding elimination of a program. We will forward our comments to the Committee at a later date.

Management Information Systems

Section 831 would authorize the expenditure of funds to develop a state-of-the-art consolidated data system for the existing four Community Planning and Development formula programs, as well as encourage the improvement of systems, which will help HUD and those involved in housing and community development provide better programs and services. MBA further encourages Congress to consider improving HUD's data gathering and budgeting equipment and procedures to enable it to better track application activity, the volume of loans outstanding at any given time, and loan performance data. There is a tremendous need for this type of information that is not now

collected and compiled on an accurate and consistent basis with respect to multifamily production.

Lead-Based Paint Technical Assistance Amendments

MBA has dedicated itself to financing and servicing loans that provide safe, decent, affordable housing for all Americans. In keeping with that goal, MBA has encouraged and actively participated in efforts to eliminate environmental hazards, including those posed by the presence of deteriorating lead-based paint. However, MBA is also concerned about assuring that efforts to eliminate perceived environmental hazards do not unnecessarily eliminate or reduce the supply of affordable housing. This danger is especially acute, because it is low- and moderate-income housing that stands the greatest risk of being eliminated.

In seeking ways to improve efforts to eliminate lead-based paint hazards, MBA would encourage HUD to fund a study of the impact that environmental protection efforts of HUD as well as other Federal agencies are having, and are likely to have, on the supply of affordable housing and on housing affordability.

Credit Subsidy For FHA Multifamily Mortgage Insurance Program

In addition to the provisions included in the proposed legislation about which we have provided comments above, MBA encourages the Committee to focus attention on the following problem that has developed with respect to the FHA multifamily mortgage insurance programs.

In early March of this year, HUD was forced to shut down its multifamily mortgage insurance programs for the remainder of the second fiscal quarter for 1994. As a result, HUD was unable to approve new loans for the rehabilitation, refinancing or construction of multifamily projects. (The second quarter ran from January 1, 1994 through March 31, 1994.)

The shutdown was due to a shortage of available credit subsidy authority which, under current law, must be doled out by HUD in equal quarterly amounts. These allocations previously were made by the Department at times it deemed most appropriate. Congress forced HUD onto a quarterly allocation scheme last year. This was done in order to cause the Department to recognize its obligation to comply with budget reforms implemented in 1990, requiring that all expenditures be matched by offsetting budget appropriations.

HUD began to issue new commitments at the start of the third fiscal quarter (i.e. at the beginning of April), pursuant to Congress' 1993 appropriation to HUD. However, two weeks ago, only three weeks into the third fiscal quarter of 1994, HUD was again forced to shut down the multifamily programs, because it had already committed (or set aside funds for) its entire subsidy authority for the third fiscal quarter.

This shortage of credit subsidy was the direct result of a substantially higher than anticipated volume of commitment activity, which was impossible to predict at the time HUD filed its annual credit subsidy request. Unanticipated low interest rates, as well as changes made to the 223(a)(7) multifamily refinance program by the Office of Management and Budget (OMB) in December, 1993, caused refinancing volumes to increase significantly.

Also, new projects stimulated by the combination of low interest rates, reduced vacancy rates and improved multifamily market conditions contributed to the shortage of funds. It is important to note that HUD and the industry anticipate this demand to continue, particularly as efforts to repair and replace disaster-damaged multifamily projects get into full swing and as the new risk sharing and reinsurance programs get underway.

There is a need to address this problem in the short term. This is especially true because the credit

subsidy shortage may force the government to miss an opportunity to reduce its risk of loss from the FHA insurance funds and will surely reduce the production of low- and moderate-income housing.

MBA would like to recommend a short term answer that will address this problem. It is designed to provide the greatest number of affordable multifamily units by taking advantage of current low interest rates that have already risen sharply and are almost certain to continue to rise. MBA would also like to recommend focusing attention on identifying long term solutions and, in that regard, have offered some suggestions.

Recharacterization of Loan Refinancings as Modifications

Specifically, efforts should be made to identify a means by which HUD can classify loan refinancings of FHA-insured multifamily loans as modifications of existing loans rather than issuances of new debt. By so doing, no allocation of credit subsidy would have to be made, since the Budget rules require a credit subsidy allocation only in instances where the U.S. Treasury incurs a new debt obligation. By so doing, Congress would significantly reduce the risk of loss to the Treasury, and at the same time permit the construction and rehabilitation of affordable multifamily units.

To make this approach appropriate and acceptable, such recharacterization could be limited to situations where the loan interest rate is reduced, no equity is removed from a project, and the principal amount of debt is increased only by such nominal amount as is necessary to cover administrative costs for the refinancing, e.g. the Section 223(a)(7) program.

To avoid a change in the budget rules, we recommend that HUD be directed to modify existing mortgage insurance contracts, rather than issue new contracts in the event of loan refinances. Because, Budget rules require allocation of credit subsidy when a new debt obligation is incurred, the government could avoid incurring an additional obligation if the FHA insurance contract were merely modified. This could be accomplished immediately prior to multifamily loan refinancing settlements by executing mortgage insurance certificates (the method used for issuing FHA single family insurance guaranties) on the old project certificates to replace the endorsements to the promissory notes. The certificates could then be modified as part of the refinancing transaction.

Efforts with Respect to Appropriations and Budget Matters

MBA is working with other Congressional committees, specifically Appropriations and Budget, to address other credit subsidy issues that fall outside of the Banking Committee's jurisdiction. Specifically, MBA is working with the Appropriations Committee in an effort to pass a supplemental appropriation measure to permit the refinancing of existing loans and the production of new housing in FY 1994 while interest rates remain relatively low. MBA is working actively to identify appropriate offsets that will make it possible to make such a supplemental appropriation without running afoul of existing budget and appropriations rules.

MBA is also encouraging Congress to grant HUD authority to carry-over any unused credit subsidy allocated in 1994 to fiscal year 1995. Without this ability, funds allocated to a project in FY 1994 that closes after the end of the fiscal year, will have to obtain a new credit subsidy allocation from FY 1995 funds.

Finally, MBA is seeking to address these and other issues with respect to 1995 budget and appropriations legislation. For example, we are seeking to amend the quarterly allocations of subsidy authority in FY 1995 to have it more closely follow the volume of business traditionally done in each quarter rather than one-quarter of the authority being allocated in each quarter.

Summary

Mr. Chairman and Members of the Subcommittee, MBA sincerely appreciates your willingness to listen both to our concerns and to solicit our opinions. We will be happy to work with you and your staff as you develop policies to guide the FHA program through the 1990s.

Questions for Mr. Steve Ashley
Mortgage Bankers Association
From Chairman Henry B. Gonzalez
Hearing on May 5, 1994

1. H.R. 3838 contains a provision providing for emergency foreclosure assistance. This provision would provide temporary financial assistance for homeowners of non-FHA insured single family homes who are faced with the threat of foreclosure due to involuntary unemployment or substantial loss of income. Mr. Ashley, what do you think of this program.
2. Despite the fact that the FHA high-cost mortgage limit has been increased incrementally you point out in your testimony that the FHA is presently serving a larger number of low- and moderate-income homebuyers than high-income buyers. Could you provide the Subcommittee with any insights as to why this is true.

Response to Questions
Hearing on May 5, 1994 on HR 3838

Questions For Mr. Stephen Ashley From Chairman Henry B. Gonzalez

1) HR 3838 contains a provision for emergency foreclosure assistance. This provision would provide temporary financial assistance for homeowners of non-FHA insured single family homes who are faced with the threat of foreclosure due to involuntary unemployment or substantial loss of income. Mr. Ashley, what do you think of this program?

MBA supports targeted emergency foreclosure assistance. Unfortunately in the past, our comments offering suggested improvements may have been misconstrued as opposition. We would like to clarify our position.

MBA believes that triggers invoking relief should be targeted as specifically as possible. Unemployment rates or a localized economic event such as a base closure are examples of appropriate targets, because they serve as a more specific or targeted trigger for relief. Triggers such as default or foreclosure statistics should not be used, because these statistics are lagging, rather than leading, indicators of economic trouble spots. Regardless of the statistics that are used, the trigger should be based on a regional or local, rather than a nationwide standard.

Further, while many problems, such as illness or divorce, can contribute to defaults, such situations should not in and of themselves trigger relief, because there are times when the borrower can sell the property and avert foreclosure, circumventing the need for emergency foreclosure assistance. However, there are times when a regional economic downturn decreases property values and diminishes home sales. Such economic conditions limit property disposition as a viable alternative. In certain cases, emergency foreclosure assistance would then be warranted.

It is also important that voluntary forbearance be considered before providing for an assistance program. Many lenders are already forbearing without the benefit of an assistance program, because among many other reasons, they cannot dispose of the property once it becomes REO and they prefer, where there is any possibility of reinstatement, to forbear from foreclosure.

Other considerations in framing a forbearance program include:

- the emergency foreclosure assistance should only apply to a principal residence;
- the person should be unemployed or underemployed through no fault of their own;
- the assistance should be for a limited period of time; and
- the person should be deemed able to reinstate and to repay the assistance.

Mr. Chairman, we think your diligent efforts to seek solutions to avoid foreclosure through temporary assistance are positive. We look forward to working with your staff on this proposal to focus assistance on borrowers who can be helped the most by limited resources.

**Response to Questions
Hearing on May 5, 1994 on HR 3838**

2) Despite the fact that the FHA high-cost mortgage limit has been increased incrementally you point out in your testimony that the FHA is presently serving a larger number of low- and moderate-income homebuyers than high-income buyers. Could you provide the Subcommittee with any insights as to why this is true?

Since the mid-1980s mortgage interest rates have been relatively low, which has spurred affordability for low- and moderate-income families. The principal bar to home ownership in a low interest rate environment is the inability to accumulate a sufficient downpayment. Because FHA offers low downpayment mortgage insurance, its program is the key to entering the homeownership market for many borrowers who can afford the monthly payment, but who cannot meet high downpayment requirements.

Besides low downpayment requirements, FHA's other main attraction is underwriting guidelines that are easier to meet with higher allowable debt to income ratios. Many low- and moderate-income borrowers maintain higher debt-to-income ratios or have blemishes on their credit that would disqualify them for conventional financing. Yet these borrowers are creditworthy and can maintain monthly payments, so they qualify for FHA mortgage insurance.

Borrowers who can qualify for conventional mortgage insurance will obviously choose to go that route, because it is much cheaper insurance. The current FHA premium structure makes adverse selection inevitable in the program and results in FHA serving a larger number of low- and moderate-income homebuyers instead of higher income homebuyers with other alternatives, such as a parent's gift of the downpayment, who can avoid the onerous FHA premium structure. MBA believes the current premium structure will result in adverse selection in the FHA program. It is not that low- and moderate-income borrowers are per se bad credit risks, but it is clear with the dramatic differential in pricing for the mortgage insurance, that the FHA program is serving a riskier class of borrowers than it has in the past.

May 5, 1994 Hearing

Questions submitted by Cong. Roukema

For Stephen Ashley, Mortgage Bankers Association of America

1. On page 3 of your testimony, you state that the 100% Mortgage Finance Program would not adversely impact neighborhoods because it would be limited to 20% of the dwelling units in a revitalized area.

i Would a limitation to 20% of dwelling units in a revitalize area also stifle FHA's ability to stimulate an area? In other words, you expect families who are of low income to accept dwelling units in less than favorable climates, then limit the assistance so that there is not a significant impact, according to FHA estimates in that area?

ii Do you think it is fair that this program should be geographic-specific? As a follow-up, is it fair to those assisted families?

2. You support interest rate buydowns for the National Homeownership Trust Fund. How do you reconcile this component of the Fund as viable, given previous testimony last Fall that criticized interest buydowns as inefficient and not a maximum use of the taxpayers investment?

3. You support the Innovative Demonstration Program, on page 5 of your testimony. Could you elaborate on the "two step" mortgages and how they would be compatible with the mission of FHA without risking the MMI Fund?

4. On page 6, you state that the "higher premium structure...created serious structural problems for FHA and could seriously jeopardize the long term solvency of the FHA program." Furthermore, you later state that the premium is noncompetitive and limits FHA to those high risk borrower who cannot obtain financing from other sources."

i If the premium is noncompetitive and adversely affects the Fund, what tools does this Subcommittee have to guarantee that the MMI Fund is revived and stable through an improved capital ratio standard?

5. You state on page 9 of your written testimony that an increased mortgage limit would help lending in inner city areas. How does this reconcile with testimony today that increased limits will benefit only the wealthy? Will increased mortgage limits encourage and/or benefit only the wealthy to move into inner cities?

6. You touch on a problem that we receive many complaints about: HUD's ability to deliver Mortgage Insurance Certificates. Could you explain the concerns of many of your members, and how would your proposal to allow lenders to issue their own Mortgage Insurance Certificates benefit homeowners, while at the same time not encourage fraud and abuse of the FHA program?

**Response to Questions
Hearing on May 5, 1994 on HR 3838**

Questions for Mr. Stephen Ashley From Congresswoman Roukema

1) On page 3 of your testimony, you state that the 100% Mortgage Finance Program would not adversely impact neighborhoods because it would be limited to 20% of the dwelling units in a revitalized area.

i. Would a limitation to 20% of dwelling units in a revitalization area also stifle FHA's ability to stimulate an area? In other words, you expect families who are of low income to accept dwelling units in less than favorable climates, then limit the assistance so that there is not a significant impact, according to FHA estimates in that area?

ii. Do you think it is fair that this program should be geographic-specific? As a follow-up, is it fair to those assisted families?

The 20 percent limitation is intended to limit the number of very high loan-to-value ratio properties in a concentrated area in order to limit potential risk of default and abandonment on a widespread basis in a given neighborhood. This has to be balanced against the potential to revitalize a given area. Whether or not 20 percent is the appropriate number is a judgment that HUD, in making the proposal, is better able to make.

At any given time, even in a revitalization area, only a portion of the housing will be for sale. We do not believe that a 20% limitation will stifle the ability of this program to serve as one aspect of an area's revitalization plan. Making the program geographic-specific allows a plan to be designed and a coordinated strategy to be devised that will assess the needs of a community and those who live or wish to move into that community.

HUD in making this proposal has recognized that the targeted borrower group may have more difficult credit needs to serve. By focusing the program on revitalization areas, those borrowers will receive credit and home purchase counseling as part of an overall strategic plan. Given the demonstration nature of this proposal, we believe it is wise to pursue its implementation with such a local strategy in place.

Clearly, given the target group for this proposal, there has to be a concentrated effort to counsel potential homeowners before the purchase, and in the event of a potential default, there has to be more active counseling early in the default to try to avert foreclosure.

Another element, which the proposal does not include, is the soundness of the property. Because low- and moderate-income families who have not previously owned homes may not be equipped to analyze property condition or be familiar with property repairs. The Committee may want to consider the feasibility of requiring a home inspection prior to purchase to help the borrower evaluate the condition of the property so as not to be faced with expensive repairs in the early years of the loan.

**Response to Questions
Hearing on May 5, 1994 on HR 3838**

2) You support interest rate buydowns for the National Homeownership Trust Fund. How do you reconcile this component of the Fund as viable, given previous testimony last Fall that criticized interest buydowns as inefficient and not a maximum use of the taxpayers' investment?

Interest rate buydowns are just one of the options that can be utilized under the National Homeownership Trust Fund, as proposed in HR 3838. MBA testified in support of that option as one of several tools available under the program. Although in the current economic environment interest rates are relatively affordable and other concerns, such as accumulating a sufficient downpayment, are acting as more significant hurdles to homeownership, in a different economic climate with higher prevailing interest rates, interest rate buydowns become more important to keeping homeownership options open.

One problem with interest rate buydowns is that borrowers do not have an incentive to refinance in the event that interest rates decline. One option would be for the agency to include provisions giving it the discretion to accelerate the loan, calling it due, if interest rates decline by a specified percentage. The agency should be willing to cover the costs of refinancing the loan in order to lower the rate and curtail its ongoing obligation to pay out the interest rate buydown.

3) You support the Innovative Demonstration Program on page 5 of your testimony. Could you elaborate on the "two step" mortgages and how they would be compatible with the mission of FHA without risking the MMI Fund?

FHA should have the authority to insure "two step" mortgages, such as the 7/23 and the 5/25. Currently, participants in the FHA program only have two choices, the one-year adjustable rate mortgage (ARM) and the 30-year fixed rate mortgage. Allowing FHA to insure the "two step" mortgages will give FHA borrowers essentially the same choices as the conventional market, thus making FHA more competitive and consumer-beneficial. Further, the "two step" mortgages have the advantages of lower initial rates than 30-year fixed rate mortgages and have less risk than one-year ARM's. Simply stated, "two step" payments remain the same for 7 or 5 years and then adjust after that time. The index generally used for the "two steps" is less volatile than that used for the one-year ARM.

Generally, the mission of FHA is to serve low-, moderate-, and middle-income homebuyers and to maintain a fiscally strong FHA insurance fund. By allowing FHA to insure mortgage products that have been successful in the conventional marketplace, FHA will be able to compete for more borrowers, which will ensure a strong fund and will benefit the consumer by granting more product choices to fit borrowers' needs.

Response to Questions

Hearing on May 5, 1994 on HR 3838

4) On page 6, you state that the "higher premium structure ... created serious structural problems for FHA and could seriously jeopardize the long term solvency of the FHA program." Furthermore, you later state that the premium is noncompetitive and limits FHA to those high risk borrowers who cannot obtain financing from other sources."

i. If the premium is noncompetitive and adversely affects the Fund, what tools does this Subcommittee have to guarantee that the MMI Fund is revived and stable through an improved capital ratio standard?

HUD has indicated in recent testimony that FHA will meet its capital ratio target of 1.25 this year and that the 2.0 target will be met before the deadline. FHA is presently required to submit annual reports on the status of the MMI Fund, which ensures adequate Congressional oversight of the financial soundness of the Fund.

MBA believes that the 1990 legislative changes have negatively impacted FHA's MMI Fund rather than improved its financial stability. Instead of enhancing the quality and distribution of FHA originations, the previous changes accelerated adverse selection in the FHA program by charging a mortgage insurance premium that is no longer competitive with the price charged by private insurers. The net result is that FHA has become the insurer of last resort. The current FHA premium structure charges homebuyers two to three times more than the private insurance market charges low-risk homebuyers (those with more than a 10 percent downpayment). As a result of this premium expense, FHA has become limited to high risk borrowers who cannot obtain financing from other sources. FHA is their only hope for mortgage financing, and thus, FHA is their last resort.

MBA believes that the premium should be moderated in order to attract a more diverse economic mix of borrowers to the program. Diversifying risk will allow FHA to maintain an affordable premium structure with a concurrent goal of maintaining a financially sound MMI Fund. Because FHA maintains nationwide underwriting standards and does not avoid economically risky or depressed markets, FHA needs to continue to attract a mixture of borrowers, so that the program is not caught in a spiral of insuring only the riskiest borrowers, which could ultimately lead to an ever higher premium structures in order to sustain its financial viability.

5) You state on page 9 of your written testimony that an increased mortgage limit would help lending in inner city areas. How does this reconcile with testimony today that increased limits will benefit only the wealthy? Will increased mortgage limits encourage and/or benefit only the wealthy to move into inner cities?

The program referenced on page 9 of MBA's testimony, Section 221(d)(2) was designed to assist lower income families in inner-city areas. MBA supports increasing its limits by 50 percent in order to catch up with inflation in housing prices. Presently, the loan limits for this program range from \$31,000 to \$42,000. These limits have not been changed in more than 10 years. The cost of housing has outgrown this limit thereby rendering it almost useless in many inner-city areas. If these limits are increased, housing opportunities for lower income families in areas that are not considered "high cost" will be expanded, and such new business will further strengthen the FHA fund. The increases that MBA advocates for Section 221(d)(2) are well within the range of low- and moderate-income homeownership needs.

**Response to Questions
Hearing on May 5, 1994 on HR 3838**

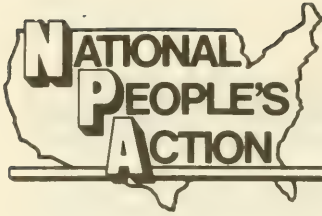
6) You touch on a problem that we receive many complaints about: HUD's ability to deliver Mortgage Insurance Certificates. Could you explain the concerns of many of your members, and how would your proposal to allow lenders to issue their own Mortgage Insurance Certificates benefit homeowners, while at the same time not encourage fraud and abuse of the FHA program?

The issuance of Mortgage Insurance Certificates is purely an administrative, clerical function. Over the years, HUD has been unable to deliver timely Mortgage Insurance Certificates. Such delays have resulted in a serious FHA bottleneck. MBA believes that lenders should be able to issue their own Mortgage Insurance Certificates to improve the efficiency of the FHA program.

After the loan is closed, lenders wait months for mortgage insurance certificates from many field offices. As a result, lenders cannot complete processing requirements for GNMA pools in a timely manner. It creates unnecessary costs for lenders and unnecessary administrative work for HUD. Allowing qualified lenders to perform this largely clerical function will allow HUD to devote limited staff time and resources to monitoring and review functions.

Allowing qualified lenders to issue Mortgage Insurance Certificates will not foster fraud or abuse. In issuing these, HUD does not presently review any aspect of the loan file. HUD has already delegated to the underwriting decision to the lender through the Direct Endorsement program. In fact, the default rate on Direct Endorsement loans is lower than those that were processed entirely by HUD. The program is an unqualified success by any standard. Since lenders are already making the credit decisions, it makes sense to allow them to issue the Mortgage Insurance Certificates. This can be done without any diminution of safety and soundness, because HUD has safeguards, including statutory post-endorsement loan audit reviews. Furthermore, if there is even a hint of wrongdoing, HUD has authority to immediately suspend any FHA-approved lender's direct endorsement privileges. In the event that a lender might erroneously approve a mortgage insurance certificate (for example, if a lender approved a certificate on a loan that exceeded a particular area's high cost limits), HUD can require the lender to buy back the loan and indemnify the Department.

Delegating this administrative processing function to lenders will free HUD resources to monitor and review program operations, as well as cut lenders' loan holding costs, the savings from which can be used to lower borrowers' rates.



NEIGHBORHOODS *First*

"H.R. 3838, Housing and Community Development Act of 1994"

Federal Housing Administration's Single and Multi-family Program Initiatives

Testimony Before the

U.S. House of Representatives
Subcommittee on Housing and Community Development
of the

Committee on Banking, Finance, and Urban Affairs

Submitted by

Gale Cincotta

Executive Director of the National Training and Information Center
Chairperson of National People's Action

May 5, 1994

Thank you, Mr. Chairman and other members of the Committee for this opportunity to testify. I speak not only as Executive Director of the National Training and Information Center, but as Chairperson of National People's Action. NPA is a nationwide coalition of over 300 grassroots community organizations who have been working on a variety of neighborhood issues such as community reinvestment, anti-crime and drug strategies and FHA reform.

NTIC has a long history of working on FHA abuses and seeking reforms which would minimize, if not eliminate, the devastation of foreclosures and the resulting abandonment in America's neighborhoods. For over 25 years, I have watched as the abuse, fraud, and neglect of the FHA program has led to the destruction of too many inner-city neighborhoods and too many families' dreams of homeownership. When HUD puts people into homeownership, it must be for good. Too many families end up in foreclosure and too many homes stand vacant today as HUD continues to ignore its responsibility to the homeowners and to the community after the loans are made.

Since 1988, the foreclosure rate on FHA-insured single-family homes has averaged 90,000 per year at an annual cost to the government of approximately \$5 billion. Each one of these claims represents a family who has been a victim of the FHA program and unscrupulous realtors and mortgage bankers. For these families, the American dream became the American nightmare as they could no longer afford to keep their home. Despite these figures, HUD is asking Congress to permit them to expand the FHA program.

I am here today to tell you that I am extremely concerned with HUD's proposals to expand the FHA program. Specifically, I want to express my opposition to HUD's proposals to increase the FHA loan limits, to promote 0% downpayment loans in "revitalization areas," to permit risk sharing between HUD and state housing finance agencies, and to give HUD the authority to establish affordable housing demonstration programs with the secondary market.

The Administration will tell you that what is driving these changes is the need to expand homeownership opportunities for low and moderate income families and the need for FHA to make a profit. I am here today to tell you that the proposals submitted by the Administration will do neither. Raising the loan limits to \$172,000 will not help low and moderate income homebuyers. They will not be able to afford these homes. Further, research shows that claims on loans under \$75,000 were slightly less than the average of all claims. Claims on loans over \$200,000 were almost two and a half times greater than average. If the Administration is genuinely concerned with FHA's profits, they should be focusing on preventing foreclosures and on cleaning up the abuse and neglect of the FHA program.

1. Raising the FHA Loan Limits Will Not Help Low and Moderate Income Homebuyers

Allowing HUD to raise the FHA loan limits and to participate in risk sharing programs with

state housing finance agencies in order to provide mortgages above the high cost limit goes directly against the very mission of the FHA program. The FHA program was created in order to provide mortgage assistance for low and moderate income homebuyers whose needs were not being met by the conventional market.

By permitting HUD to increase the FHA loan limits to \$172,677 or 85% of the Fannie Mae/Freddie Mac conforming loan limits, the FHA program would no longer be serving the very people it was established to serve. Instead, much of FHA business would be geared towards serving people earning \$60,000 or more.

In the last several years, we have witnessed the amount of FHA business dedicated to first-time homebuyers dramatically decline. In 1992, only 49.2 % of FHA 203 mortgages were made to first-time homebuyers as compared to 56.75 % in 1991.

Even more alarming is the overall decline in the number of FHA-insured loans designed to serve low-income people. The Administration will tell you that they are motivated by the desire to expand homeownership opportunities for low and moderate income families. Yet from HUD's own data, we can see that as the FHA ceiling goes up, the amount of low-end mortgages (mortgages on homes \$50,000 and less) being made has dramatically declined. Attachment A shows FHA mortgages with a 3 percent downpayment with values under \$50,000 for the period from 1987 through 1991. The decline in these mortgages began in the first quarter of 1990, and continued throughout 1990 and 1991. This decline began the last time Congress raised FHA's loan limits from \$124,000 to \$151,000 in 1990.

When clearly the need for FHA mortgage insurance is for low and moderate income families, urban homebuyers, and first-time homebuyers why are the Administration proposals aimed at higher-income families and upwardly mobile families who have access to the conventional market?

The wealthy do not need a government program to purchase homes. Census statistics show that households with these high incomes constitute a clear minority of U.S. households, and not too surprisingly, most of the people in these categories already own a home. In 1990, only 15 % of U.S. households had incomes between \$50,000 and \$75,000 and only 5 % of households had incomes between \$75,000 and \$100,000 while 75 % of U.S. households had incomes **below** \$50,000.

Most importantly, 82 % of households with incomes between \$50,000 and \$75,000 already own their own homes and 88 % of households with incomes between \$75,000 and \$100,000 own their own homes. By comparison, only 57 % of households earning less than \$50,000 own their home.

In addition, permitting FHA and state housing agencies to enter into risk sharing programs for mortgages above the high-cost limit goes against FHA's mission. Pushing state and federal government resources to finance high-priced homes does nothing to help low-income families.

They do not have the incomes to purchase high-priced homes.

I urge you not to permit HUD to use the FHA program as a subsidy program for the middle-class. The only people who stand to gain from an increase in FHA loan limits are those households earning \$60,000 or more and the realtors and mortgage bankers who stand ready to snatch up millions in additional new business.

I seriously question the government's role in providing mortgage credit to these high end borrowers. I urge you to allow the conventional market to continue serving these families and allow HUD to concentrate their efforts on making homeownership a reality for truly low and moderate income families.

2. 0% Downpayment Programs Are Not the Right Answer

Permitting HUD to direct 10% of their FHA volume towards providing 0% downpayment loans in economically depressed areas or "revitalization areas" will be the final straw for neighborhoods already devastated by FHA. In 1993, the FHA volume of loans was 910,161. This means that approximately 91,000 0% downpayment loans could be made in "revitalization areas."

These revitalization areas are the same areas that have already been the hardest hit by neglect and abuse of the FHA 203 program. Hundreds of foreclosed FHA properties already sit vacant in HUD "revitalization areas" across the country. In some of these areas, FHA default rates are as high as 28%. Foreclosure rates in these targeted neighborhoods are already at catastrophic levels and to eliminate downpayment requirements only in these areas would be irresponsible.

It is reprehensible that HUD would make such a product available in neighborhoods that are currently experiencing firsthand the devastating effects of high foreclosure and abandonment rates. Attachment B shows that for the past ten years, FHA foreclosures have averaged 90,000 per year at a cost to the federal government of \$5 billion per year.

3. Affordable Housing Demonstration Programs

It is absurd that HUD may be allowed to establish innovative housing demonstration programs with the same government sponsored enterprises (GSEs) with whom they are charged with enforcing. The intent of the GSE legislation was to insure that Fannie Mae and Freddie Mac were meeting the needs of inner-cities and low and moderate income homebuyers through regular business.

Now, HUD wants to help them meet their affordable housing goals which were mandated by the GSE legislation by creating special programs which are 100% government insured. The goal of the GSE legislation was to insure that the private market was working for all segments of the population. Now that the private market has stepped up to the plate and has made major leaps in the production of affordable housing such as the 97% LTV conventional loans, the

government wants to provide insurance for loans that can be made under regular business.

Under no condition should HUD be allowed to use the FHA fund as a tool for risky alternative mortgage instruments. More importantly, encouraging FHA to experiment with alternative mortgage instruments could actually hurt lower income people. Alternative mortgage instruments involve monthly mortgage payments that change over time. Lower income people do not have the incomes to support swings in their mortgage payments and, therefore, this proposal would result in additional foreclosures at an expense to American taxpayers.

4. Proposals Place All the Risk On The Government

While these proposals may seem to be the answer to increasing homeownership opportunities for low income families in the short run, they will provide a great disservice to such families, to the community, and to the FHA fund in the long run. The opportunity for default is much greater when all the risk of loss is on the government. All of these proposals appear to place all of the risk on either the state housing agency or the FHA. The government sponsored enterprises who will be purchasing the loans and the lenders who will be originating them, do not have that risk.

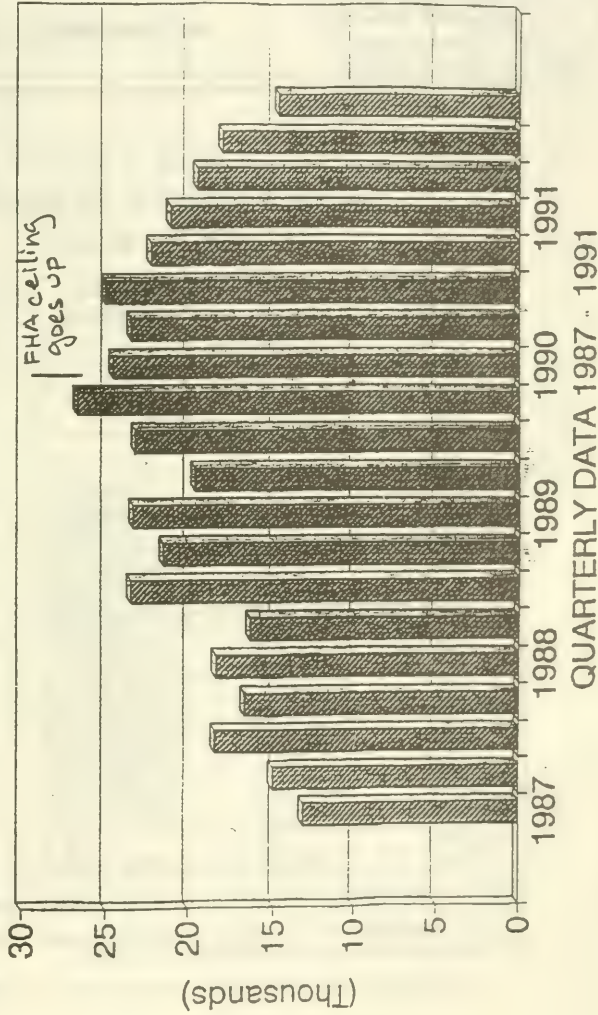
Now is not the time for Congress to radically change the FHA single-family housing programs. HUD has just begun to make real progress on reducing the number of FHA foreclosures and the FHA fund has just begun to stabilize. I urge you to allow our neighborhoods to recover from the abuse and neglect of the FHA program before you allow the FHA program to expand. Permitting these changes would be very destructive to low and moderate income neighborhoods and would actually result in the loss of homeownership opportunities for many Americans. I am convinced that if you allow these changes to go through, the American dream of homeownership will indeed turn into an American nightmare for our neighborhoods and for many low income families.

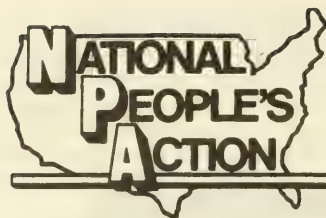
NTIC National Training and Information Center

810 N. Milwaukee Ave. □ Chicago, Illinois 60622-4103 □ (312) 243-3035

ATTACHMENT A

FHA 3% DOWNPAYMENT MORTGAGES - ON HOMES \$50,000 and less FROM 1987 THROUGH 1991





ATTACHMENT B

NEIGHBORHOODS *First*

FHA SINGLE FAMILY CLAIMS BY FISCAL YEAR

FISCAL YEAR	TOTAL CLAIMS PAID: NUMBER	TOTAL CLAIMS PAID: AMOUNT (\$)	AVERAGE CLAIM AMOUNT (\$)
1971	43,840		
1972	54,453		
1973	63,113		
1974	55,184		
1975	43,655		
1976	30,400		
1977	29,877		
1978	26,697	621,838,079	23,292
1979	22,907	586,284,277	25,594
1980	19,436	511,493,703	26,317
1981	19,115	624,722,903	32,682
1982	22,329	709,139,429	31,759
1983	33,058	1,261,801,977	38,169
1984	38,599	1,575,760,013	40,824
1985	49,963	2,094,369,949	41,918
1986	54,708	2,612,954,974	47,762
1987	72,729	3,830,641,522	52,670
1988	95,844	5,189,311,185	54,143
1989	90,927	4,914,721,843	54,051
1990	87,508	4,533,887,224	51,811
1991	82,926	4,414,217,487	53,231
1992	83,563	4,635,158,675	55,469
1993	79,282	4,938,117,494	62,285
10 YEAR TOTAL:	736,049	38,739,140,366	

736,049 number of claims paid x 4 person household = 2,944,196 people.

SOURCE: The Department of Housing and Urban Development, Office of the Assistant Secretary for Housing, Housing Information and Statistics.

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FHA DEFAULTS: Impact on Taxpayers & Communities

The average claim paid on an FHA foreclosure (nationwide) is \$50,829, based on actual claims paid from 1982 to 1992. In the table below, NITC used this number to estimate the cost of FHA foreclosures to U.S. taxpayers. FHA defaults are loans that are at least 90 days behind -- some have been foreclosed but others are in limbo while the foreclosure process takes place. It often takes 12 to 18 months for a loan to be foreclosed. In many cases, the homes have already been vacated. It is almost impossible for a low income family to catch up once they are 90 days behind in loan payments. NITC used HUD's default data to project how much these loans will eventually cost taxpayers.

MSA	Loans Originated Dates	# of Defaults	# of Foreclosures	Cost to Taxpayers	Projected Cost to Taxpayers by 9/30/92	Total Cost to Taxpayers
Chicago, IL	1/1/86 to 9/30/91	6,458	2,193	\$111,407,997	\$216,785,665	\$328,193,662
Cleveland, OH	1/1/80 to 9/30/91	1534	363	18,450,927	56,520,759	77,971,686
Minneapolis, MN	1/1/80 to 9/30/91	5,542	2,292	116,500,068	167,227,410	283,727,478
Rochester, NY	1/1/87 to 3/30/92	863	285	14,486,265	29,376,162	43,862,427
Syracuse, NY	1/1/87 to 3/30/92	451	163	8,285,127	14,038,752	22,923,879
Akron, OH	10/1/87 to 9/30/92	521	169	8,590,101	17,891,808	26,481,909
Detroit, MI	10/1/87 to 9/30/92	1,585	425	21,692,325	58,981,840	80,683,965
Denver, CO	10/1/87 to 9/30/92	3640	2380	120,673,020	84,044,840	186,017,860
Philadelphia, PA	10/1/87 to 9/30/92	2657	380	18,315,029	115,737,633	135,052,653
Los Angeles, CA	10/1/87 to 9/30/92	2499	867	33,992,843	93,118,728	127,021,671
Kansas City, MO	1/1/89 to 3/30/93	686	291	14,791,259	20,077,455	34,868,694
St. Louis, MO	7/1/89 to 6/30/93	5387	2446	124,527,754	149,488,089	273,815,823
Dayton, OH	7/1/89 to 6/30/93	208	60	3,049,740	7,552,892	10,672,432
Muskegon Heights, MI	7/1/89 to 6/30/93	35	13	660,777	1,118,238	1,779,015
Grand Rapids, MI	7/1/89 to 6/30/93	258	90	4,574,810	8,539,272	13,113,882
Atlanta, GA	7/1/89 to 6/30/93	3460	1654	64,071,166	91,797,174	175,868,340
Boston, MA	7/1/89 to 6/30/93	112	33	1,677,357	4,015,491	5,692,848
Louisville, KY	7/1/89 to 6/30/93	231	78	3,663,094	7,878,495	11,741,499
New York, NY	7/1/89 to 6/30/93	350	89	4,623,781	13,296,396	17,790,150
Buffalo, NY	7/1/89 to 6/30/93	361	62	3,151,398	15,197,871	18,349,269
TOTALS:				\$718,264,599	\$1,156,207,263	\$1,874,471,862

NITC Analysis: January, 1994. SOURCE: HUD FHA Default Data.

State by State Analysis of Affordable Mortgages as Compared to Current FHA Mortgage Limits in High Cost Areas

HUD defines low and moderate income families as those with
household incomes less than 80% of median income.

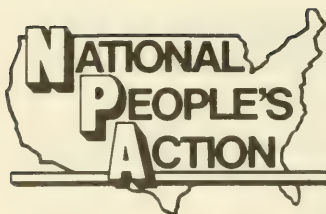
State	Median Family Income	Largest Affordable FHA Mortgage	Current FHA Max. Mortgage Limit in High Cost MSA
ALABAMA	\$28,688	\$75,882	\$102,700
ALASKA	41,408	109,528	135,000
ARIZONA	32,178	85,113	119,700
ARKANSAS	25,395	67,172	104,300
CALIFORNIA	40,559	107,282	151,725
COLORADO	35,930	95,038	124,875
CONNECTICUT	49,199	130,135	151,725
DELAWARE	40,252	106,470	118,300
DIST. OF COL.	36,256	95,900	151,725
FLORIDA	32,212	85,203	124,875
GEORGIA	33,529	88,687	123,400
HAWAII	43,176	114,204	227,550
IDAHO	29,472	77,956	108,300
ILLINOIS	38,664	102,269	151,725
INDIANA	34,082	90,150	99,750
IOWA	31,659	83,741	77,400
KANSAS	32,966	87,198	97,350
KENTUCKY	27,028	71,491	95,000
LOUISIANA	26,313	69,600	109,250
MAINE	32,422	85,759	151,725
MARYLAND	45,034	119,119	151,725
MASSACHUSETTS	44,367	117,354	151,725
MICHIGAN	36,652	96,948	108,200
MINNESOTA	36,916	97,646	110,200
MISSISSIPPI	24,448	64,667	94,950
MISSOURI	31,838	84,214	108,800
MONTANA	28,044	74,179	83,050
NEBRASKA	31,634	83,674	86,650
NEVADA	35,837	94,792	125,600
NEW HAMPSHIRE	41,628	110,109	151,725
NEW JERSEY	47,589	125,877	151,725
NEW MEXICO	27,623	73,065	120,650
NEW YORK	39,741	105,118	151,725
NORTH CAROLINA	31,548	83,447	121,600
NORTH DAKOTA	28,707	75,932	101,050
OHIO	34,351	90,861	109,700
OKLAHOMA	28,554	75,528	88,200
OREGON	32,336	85,531	113,500
PENNSYLVANIA	34,856	92,197	151,725
RHODE ISLAND	39,172	103,613	151,725
SOUTH CAROLINA	30,797	81,461	109,250
SOUTH DAKOTA	27,602	73,010	85,100
TENNESSEE	29,546	78,152	118,650
TEXAS	31,553	83,460	145,300
UTAH	33,246	87,938	124,200
VERMONT	34,780	91,996	120,650
VIRGINIA	38,213	101,076	151,725
WASHINGTON	36,795	97,326	148,400
WEST VIRGINIA	25,602	67,719	151,725
WISCONSIN	35,082	92,795	110,200
WYOMING	32,216	85,214	91,200

National Training & Information Center

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Questions for Gail Cincotta
National People's Action
From Chairman Henry B. Gonzalez
Hearing on May 5, 1994

1. Can you describe in more detail what your personal experience with the FHA program in Chicago has been and how this compares to the rest of the country.
2. Is Chicago a special situation that may be better resolved by monitoring lenders and realtors in the low- and moderate-income areas, rather than by dismantling the FHA single family program?



(responses from Ms. Cincotta)

NEIGHBORHOODS *Fast*

Responses to Questions Raised by Chairman Henry B. Gonzalez

1. Chicago has had an unique history with the FHA program. In Chicago, like Cleveland and Detroit, FHA dealt a lethal blow to entire communities and undermined the vitality and viability of the entire city. The role of FHA in racial change and the redlining of entire communities by financial institutions was actually the impetus for the formation of National People's Action in 1972.

The inundation of FHA programs in minority communities and the use of these programs to resegregate communities and maintain the separation of racial and ethnic groups has been the problem. That is, it has not always been the lack of FHA, but the abuse and overuse of FHA unnecessarily where the private market should have been involved that has undermined both racial equality and community viability. FHA is one of the leading tools of racial discrimination in mortgage lending. It was FHA and its use that initiated the anti-redlining agenda for NPA.

Through all these years, the role of FHA in low income, minority, inner city neighborhoods had not changed much. Yet there has still not been a sufficient response from HUD to remedy these situations. FHA became one of the leading causes of blight in many inner-city neighborhoods, particularly Chicago.

Prior to the 1960s, FHA lending was actually absent from inner-city neighborhoods of Chicago. Homeownership there was mainly financed through private contract sales. It was only in the mid-1960s that FHA became the exclusive lender of the inner-city, minority communities. Despite the relatively recent investments made by major downtown lenders in inner-city neighborhoods under CRA agreements, the legacy of 100% FHA neighborhoods is still a dominant force in the markets of numerous minority communities, in cities both large and small.

Today the FHA single-family loan program is viewed by many lenders and realtors as the only appropriate vehicle for financing homeownership in low to moderate income, urban, minority neighborhoods. Members of such communities also perceive FHA as the only credit accessible to them by virtue of their race, income, and geographical location.

The major legacy of FHA-dominated neighborhoods is the stigma which has come to be attached to so-called "FHA neighborhoods". The stigma results mainly from the fact that "FHA neighborhoods" have

suffered inordinately high foreclosure and abandonment. Foreclosure and abandonment, in turn, are attributable to the 100% government-insured nature of the program, under which lenders carry no risk of loss should a loan default, and are reimbursed for property maintenance, which in many cases is never performed. This is, in the case of unscrupulous lenders, actually an incentive to foreclose.

The major problems plaguing the FHA program of the 1970s were exploitation of racial change in neighborhoods by lenders using FHA, fully-insured financing; encouraging fast recycling of properties through rapid foreclosure; astronomically high numbers of abandoned FHA homes; and profiteering by Area Management Brokers paid by HUD for property upkeep they never performed on the homes and yards left vacant by foreclosure.

The same problems which were documented in the early and mid 1970s are in evidence again. Declining HUD budgets and staff shortages have contributed to the lack of monitoring and increasing abuse of the FHA program.

From 1973 a steady downward trend in foreclosures took place, until a low point was reached in 1980 and 1981, with around 19,000 foreclosures in each of those years. In 1982 foreclosures began a steady ascent, once again, and took a sudden leap in the late 1980s with a peak of 95,844 foreclosures in 1988.

2. Monitoring the lenders and realtors is critical in any city that has an FHA problem. Yet, the FHA program should still not be allowed to expand at this time. Not until FHA has shown real progress in maintaining the solvency of its insurance fund, its commitment to the neighborhoods, and to the people it puts into homeownership for the long haul, should it expand its reach.

Rather than expanding the FHA program, HUD should be concentrating on ways to improve the program and to reduce the number of foreclosures. Currently, millions of HUD program dollars are used to repair the damage done by HUD's own programs. Reform should be centered around FHA lenders, property disposition, inventory management and other aspects of the FHA process. Reforms should address the following problems:

- Poor and non-existent pre-purchase, default, and delinquency counseling
- Poor and sloppy underwriting
- Failure to provide reasonable and effective relief to those in default, particularly through the failures of the Assignment Program.
- Vacant delivery requirements for claims that make almost every FHA foreclosure a vacant and abandoned property.

- Lack of maintenance and repair of HUD inventory
- Unrealistic appraisals of FHA properties that block the rapid sale of properties to community groups and contribute to the blight in communities.
- Faulty and poorly managed property disposition policies.
- Failure to monitor lender default rates at the neighborhood or census tract level and a failure to issue sanctions for lenders who have poor lending records (i.e. unacceptably high default rates).

I do not advocate the dismantling of the FHA single family program. Rather, I believe that HUD should focus its efforts on reforming current HUD policies. I believe everyone would benefit from this focus.

May 5, 1994 Hearing

Questions submitted by Cong. Roukema

For Mrs. Cincotta:

1. On page 2, you make the statement that the Administration is proposing to assist higher-income families and upwardly mobile families who have access to the conventional market.

i. Isn't the determination of income status relative, depending on your geographic area and where you want to live?

ii. Are you making the assumption that even slightly higher income people are automatically welcomed into the conventional markets, particularly when the family is a minority or living in an inner city?

iii. Why is it that many studies suggest that all things equal, two slightly above income families, one white and one minority, may not have access to the conventional markets? Could FHA be moving in that market to make homeownership available for that segment, without having to compromise on location or quality relative to their income?

2. On the bottom of page 2, you assert that the risk-sharing program will benefit high-priced homes. What about in the inner cities where all the homes are high-priced? Do you expect that because of a moderate income and mobility, that that type of family must leave the city to purchase homes perhaps 15 to 25 miles outside the inner city area, in order to qualify for conventional mortgages?

3. On page 1, you mention that the Administration should be preventing foreclosures and clean up the abuse and neglect of the FHA program.

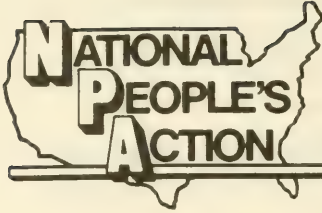
i. What specific suggestions do you have to allow FHA to prevent foreclosures that this Subcommittee can insert in the legislation?

ii. Could you cite the abuse and neglect of the FHA program that can be addressed? This Subcommittee would like specifics so that we can provide remedies?

4. On page 3, you testify that the no equity/downpayment program is irresponsible. Could you give examples of past FHA action, similar to this proposal, that have contributed to the devastation of the neighborhoods?

5. On page 4, you testify that "under no condition should HUD be allowed to use the FHA fund as a tool for risky alternative mortgage instruments. More importantly, encouraging FHA to experiment with alternative mortgage instruments could actually hurt lower income people." Please explain.

6. Your conclusion implies that there is no need for FHA. Is that true? And if so, do you think the conventional/private sector market has replaced FHA as a provider of affordable housing for low and moderate income families?



(responses from Ms. Cincotta)

NEIGHBORHOODS *First*

Responses to Questions Raised by Congresswoman Roukema

1. i. Even in high cost areas, families need the appropriate income to afford the monthly mortgage payment for a mortgage of \$172,000. To do so, a family would need an income of \$70,000 or greater. Even in high cost areas, this income would be well above median income levels. Raising the loan limits, does not make homes more affordable if you do not have the income to support the payments.

ii. No, I am well aware that sometimes people are not automatically welcomed by conventional lenders. However, FHA financing is currently available for mortgages up to \$151,000 in high-cost areas. Furthermore, HMDA data does show that the private market is very adequately serving the mid-to-upper middle lending range that HUD seeks to enter. The function of HUD should be to serve people who are not being served by the private market. FHA must be careful not to replace or compete with the reinvestment efforts that are being developed by the community in conjunction with the private market. I don't believe that for these incomes levels, it is a matter of FHA financing or no loan. Lenders are out there, they account for 60% of all conventional loans.

iii. Studies do suggest that all things are not equal between above income families, one white and one minority, in regards to their access to the conventional markets. I agree with these studies. However, expanding FHA's business to the high-end of the market is not the answer to this problem. Why is it that when we recognize the failure of the conventional market to serve someone, people automatically believe that the solution is to offer the family FHA financing. This is creating a dual financing system--FHA for minorities and conventional for whites. This in effect condones lending discrimination. Rather than permit FHA to expand for this reason, HUD should focus on lender discrimination and the Community Reinvestment Act to insure that all people, regardless of race, have the same lending options available to them.

2. First, not all homes within the inner-city are high-priced. In Chicago, only gentrifying neighborhoods would have homes priced above the current FHA loan limit of \$124,000. No, families would not need to leave the city in order to qualify for conventional loans. Conventional loans are available within the city and lenders are offering an increasingly wide array of conventional

products. To assume that one needs to live outside the city in order to get a conventional loan, is inaccurate. The Community Reinvestment Act insures that lenders are making conventional products available within the city. Not doing so, would be redlining.

Again, even in high cost markets, people must have the income to purchase homes at \$203,000. Why is it the government's role to help finance the purchase of these homes. Families would have to earn at least \$70,000 to purchase such a home.

3. 1. Monitoring the lenders and realtors is critical in any city that has an FHA problem. Yet, the FHA program should still not be allowed to expand at this time. Not until FHA has shown real progress in maintaining the solvency of its insurance fund, its commitment to the neighborhoods, and to the people it puts into homeownership, should it expand its reach.

Rather than expanding the FHA program, HUD should be concentrating on ways to improve the program and to reduce the number of foreclosures. Currently, millions of HUD program dollars are used to repair the damage done by HUD's own programs. Reform should be centered around FHA lenders, property disposition, inventory management and other aspects of the FHA process. Reforms should address the following problems:

- Poor and non-existent pre-purchase, default, and delinquency counseling
- Poor and sloppy underwriting
- Failure to provide reasonable and effective relief to those in default, particularly through the failures of the Assignment Program.
- Vacant delivery requirements for claims that make almost every FHA foreclosure a vacant and abandoned property.
- Lack of maintenance and repair of HUD inventory
- Unrealistic appraisals of FHA properties that block the rapid sale of properties to community groups and contribute to the blight in communities.
- Faulty and poorly managed property disposition policies.
- Failure to monitor lender default rates at the neighborhood or census tract level and a failure to issue sanctions for lenders who have poor lending records (i.e. unacceptably high default rates).
- Higher standards and frequent review of default rates for direct endorsement privileges.

ii. The inundation of FHA programs in minority communities and the use of these programs to resegregate communities and maintain the separation of racial and ethnic groups has been the problem. That is, it has not always been the lack of FHA, but the abuse and overuse of FHA unnecessarily where the private market should have been involved that has undermined both racial equality and community viability. FHA is one of the leading tools of racial discrimination in mortgage lending. It was FHA and its use that initiated the anti-redlining agenda for NPA.

Through all these years, the role of FHA in low income, minority, inner city neighborhoods had not changed much. Yet there has still not been a sufficient response from HUD to remedy these situations. FHA became one of the leading causes of blight in many inner-city neighborhoods, particularly Chicago.

Prior to the 1960s, FHA lending was actually absent from inner-city neighborhoods of Chicago. Homeownership there was mainly financed through private contract sales. It was only in the mid-1960s that FHA became the exclusive lender of the inner-city, minority communities. Despite the relatively recent investments made by major downtown lenders in inner-city neighborhoods under CRA agreements, the legacy of 100% FHA neighborhoods is still a dominant force in the markets of numerous minority communities, in cities both large and small.

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The major legacy of FHA-dominated neighborhoods is the stigma which has come to be attached to so-called "FHA neighborhoods". The stigma results mainly from the fact that "FHA neighborhoods" have suffered inordinately high foreclosure and abandonment. Foreclosure and abandonment, in turn, are attributable to the 100% government-insured nature of the program, under which lenders carry no risk of loss should a loan default, and are reimbursed for property maintenance, which in many cases is never performed. This is, in the case of unscrupulous lenders, actually an incentive to foreclose.

The major problems plaguing the FHA program of the 1970s were exploitation of racial change in neighborhoods by lenders using FHA, fully-insured financing; encouraging fast recycling of properties through rapid foreclosure; astronomically high numbers of abandoned FHA homes; and profiteering by Area Management Brokers paid by HUD for property upkeep they never performed on the homes and yards left vacant by foreclosure.

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are in evidence again. Declining HUD budgets and staff shortages have contributed to the lack of monitoring and increasing abuse of the FHA program.

From 1973 a steady downward trend in foreclosures took place, until a low point was reached in 1980 and 1981, with around 19,000 foreclosures in each of those years. In 1982 foreclosures began a steady ascent, once again, and took a sudden leap in the late 1980s with a peak of 95,844 foreclosures in 1988.

4. In 1990, Congress enacted many reforms for the HUD FHA single-family program. One such reform sought to eliminate the ability of borrowers to fold in all closing costs. Often this led to homes with mortgages greater than the value of the home. In times of financial difficulty, this would lead to homeowners walking away from their home because they had no equity in their home or were unable to sell their home because they owed more than the home was worth.

5. ARMS are not beneficial to truly low-income families. History has shown that adjustable rate mortgages do not work for low income borrowers. They simply do not have the income to support increase in their monthly mortgage payments. Low and moderate income people's incomes do not increase in a manner which would accommodate the increasing amount of the mortgage payment. I have included an analysis that NTIC performed in order to demonstrate this fact.

6. I did not mean to imply that there is no need for FHA. However, the expansion of FHA should be to serve people who cannot be served- or clearly are not being served-by the private market. But it must be done carefully so as not to replace or compete with reinvestment efforts developed by local communities in conjunction with the private market. There have been significant and growing initiatives to serve these communities and individuals with a growing array of private home lending products, programs, and services. The expansion of FHA should carefully avoid discouraging these efforts.

(Ms. Cincotta)

Affordable Housing 97% LTV ARM Example

Annual Income: \$20,000

Mortgage Amount: \$50,000

Initial Mortgage Payment: \$555
 (@ 8%—Including PITI)

ARM

ARM adjusted after 4 years.

Lifetime max. cap on adj. is 6%.

Maximum Adj. is .5% per year.

Time After Origination	Monthly Income Growth@ 3%/ Year		Mortgage Payment	Mortgage Burden Adjusted for Inflation & Income Growth	
	Income	After 3.9% Inflation		3% Over Inflation	3.9% inflation Income
	1,667	1,667	555	33.3%	33.3%
+1 Year	1,717	1,652	555	32.3%	33.6%
2	1,768	1,637	555	31.4%	33.9%
3	1,821	1,622	555	30.5%	34.2%
4	1,876	1,607	555	29.6%	34.5%
5	1,932	1,593	570	29.5%	35.8%
6	1,990	1,579	587	29.5%	37.2%
7	2,050	1,564	602	29.4%	38.5%
8	2,111	1,550	618	29.3%	39.9%
9	2,175	1,536	633	29.1%	41.2%
10	2,240	1,523	648	28.9%	42.6%
11	2,307	1,509			
12	2,376	1,495	678	28.5%	45.3%
13	2,448	1,482			
14	2,521	1,469	726	28.8%	49.4%
15	2,597	1,455			
16	2,675	1,442	753	28.2%	52.2%

NTIC Analysis: March, 1994.

(Ms. Cincotta)

AFFORDABLE HOUSING 97% LTV ARM EXAMPLE

ANNUAL INCOME: \$20,000
 MORTGAGE AMOUNT: \$50,000
 INITIAL MORTGAGE PAYMENT: \$555
 (AT 8% INCLUDING PITI)
 ARM
 ARM ADJUSTED AFTER 4 YEARS
 MAXIMUM ADJUSTMENT .5% ANNUALLY
 LIFETIME MAXIMUM CAP ON ADJUSTMENT IS 6%

EXPLANATION OF TABLE

The first column (Time After Origination) is showing the number of years after the loan originated.

The second column (Income) is showing the monthly income of a person who's income increases at a rate of 3% per year.

The third column (After 3.9% Inflation) is showing a person's buying power adjusted for inflation at 3.9%- the average CPI increase for the last seven years in Chicago. (U.S. Department of Labor, Bureau of Labor Statistics. 1987-1994) Notice that while the individual's income is growing, his/her actual buying power is decreasing at a rate of .9% annually.

The fourth column (Mortgage Payment) is showing the dollar amount of the monthly mortgage payments.

The fifth column (3% Over Inflation) is showing what percentage of a person's buying power (income after inflation factor) will be devoted to mortgage payments if the individual's income increases at a 3% rate over inflation (6.9% total annual income growth). In this case, the payments are taking up less percentage of buying power after sixteen years than originally (33.3% as opposed to 28.2%). However, one must remember that this case would require a 6.9% annual increase in income to be appropriate.

The sixth column represents the individual's case who's income grows at a 3% annual rate while inflation grows at a 3.9% annual rate. This column paints an entirely different picture of the individual's buying power than does column five. A 33.3% mortgage cost to the individual in year one increases to a whopping 52.2% mortgage cost in year sixteen. When one looks at the actual buying power of an individual with a 3% annual income increase with a 3.9% annual CPI increase, this is obviously not an affordable housing program.

Furthermore, the average annual income increase for Industry/Manufacturing jobs in Chicago is 1.7. (adjusted average, Department of Labor, Bureau of Labor Statistics, 1987-1993). If the numbers were run for a 1.7% increase in salary and a 3.9% increase in CPI, the picture the numbers would paint us would be a very realistic one for our folks in Chicago, but a much worse picture

for the ARM program than already presented. Thus, in our opinion, the ARM is not a healthy way to approach affordability for low-mod families. The annual increase in interest paid on the mortgage is too great of a shock.



BOBBY L. RUSH
1ST DISTRICT
ILLINOIS

CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

COMMITTEES
BANKING, FINANCE AND URBAN AFFAIRS
GOVERNMENT OPERATIONS

QUESTION FOR GALE CINCOTTA, EXECUTIVE DIRECTOR OF NATIONAL TRAINING & INFORMATION CENTER, DURING HOUSE BANKING, FINANCE AND URBAN AFFAIRS SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT HEARING REGARDING FEDERAL HOUSING ADMINISTRATION LOAN PROGRAMS (5/5/94)

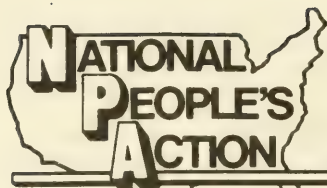
1. Ms. Cincotta, once again I would like to welcome my fellow Chicagoan as you come before the Subcommittee to share your expertise on this important policy matter. I noticed in the attachments to your testimony this morning that the FHA default and foreclosure rates in the Chicago area are right at the top of the list. Could you tell us why you believe these rates are so extraordinarily high in the Chicago area?
2. What do you feel the effect of the proposed changes in the FHA programs would have on these rates, both in Chicago and across the country?
3. What, if you had your pick of legislative revisions to the FHA programs, would you select as most targeted toward helping FHA to improve their operations and better achieve their mission in mortgage financing?

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(responses from Ms. Cincotta)

NEIGHBORHOODS *First*

Responses to Questions Raised by Congressman Rush

1. Chicago has had a unique history with the FHA program. In Chicago, like Cleveland and Detroit, FHA dealt a lethal blow to entire communities and undermined the vitality and viability of the entire city. The role of FHA in racial change and the redlining of entire communities by financial institutions was actually the impetus for the formation of National People's Action in 1972.

The inundation of FHA programs in minority communities and the use of these programs to re-segregate communities and maintain the separation of racial and ethnic groups has been the problem. That is, it has not always been the lack of FHA, but the abuse and overuse of FHA unnecessarily where the private market should have been involved that has undermined both racial equality and community viability. FFHA is one of the leading tools of racial discrimination in mortgage lending. It was FHA and its use that initiated the anti-redlining agenda for NPA.

Through all these years, the role of FHA in low income, minority, inner city neighborhoods has not changed much. Yet there has still not been a sufficient response from HUD to remedy these situations. FHA became one of the leading causes of blight in many inner-city neighborhoods, particularly Chicago.

Prior to the 1960s, FHA lending was actually absent from inner-city neighborhoods of Chicago. Homeownership there was mainly financed through private contract sales. It was only in the mid-1960s that FHA became the exclusive lender of the inner-city, minority communities. Despite the relatively recent investments made by major downtown lenders in inner-city neighborhoods under CRA agreements, the legacy of 100% FHA neighborhoods is still a dominant force in the markets of numerous minority communities, in cities both large and small.

Today the FHA single-family loan program is viewed by many lenders and realtors as the only appropriate vehicle for financing homeownership in low to moderate income, urban, minority neighborhoods. Members of such communities also perceive FHA as the only credit accessible to them by virtue of their race, income, and geographical location.

The major legacy of FHA-dominated neighborhoods is the stigma which has come to be attached to so-called "FHA neighborhoods". The stigma results mainly from the fact that "FHA neighborhoods" have suffered inordinately high foreclosure and abandonment. Foreclosure and abandonment, in turn, are attributable to the 100%

government-insured nature of the program, under which lenders carry no risk of loss should a loan default, and are reimbursed for property maintenance, which in many cases is never performed. This is, in the case of unscrupulous lenders, actually an incentive to foreclose.

The major problems plaguing the FHA program of the 1970s were exploitation of racial change in neighborhoods by lenders using FHA, fully-insured financing; encouraging fast recycling of properties through rapid foreclosure; astronomically high numbers of abandoned FHA homes; and profiteering by Area Management Brokers paid by HUD for property upkeep they never performed on the homes and yards left vacant by foreclosure.

The same problems which were documented in the early and mid 1970s are in evidence again. Declining HUD budgets and staff shortages have contributed to the lack of monitoring and increasing abuse of the FHA program.

From 1973 a steady downward trend in foreclosures took place, until a low point was reached in 1980 and 1981, with around 19,000 foreclosures in each of those years. In 1982 foreclosures began a steady ascent, once again, and took a sudden leap in the late 1980s with a peak of 95,844 foreclosures in 1988.

2. Allowing HUD to make 0% downpayment loans in "revitalization areas" will without a doubt result in more foreclosures for Chicago and for any other revitalization areas. These areas are the same areas that have been hardest hit by FHA foreclosures and the resulting abandonment. It makes no sense to put high risk loans in these areas that are already experiencing high foreclosure rates. The expansion of homeownership opportunities cannot come at the expense of the viability of the community.

Raising the FHA loan limits to \$172,675 will not benefit low income families. The expansion of FHA should be to serve people who cannot be served or clearly are not being served by the private market. But it must be done carefully so as not to replace or compete with reinvestment efforts developed by the community in conjunction with the private market. FHA has no business making loans to those people who can afford to buy a \$172,000 home. Even in high cost areas, people must have the income to afford the monthly mortgage payments on such a mortgage. To do so, one would need an income of \$70,000 or greater.

HUD's risk sharing proposal does not provide for true "risk sharing" because the GSEs can get a product where all the risk of loss is on the government. In the conventional market, the GSEs have some loss when default occurs. MI does not cover all their losses. The GSEs charge guarantee fees to help cover this loss. If the government covers all of the loss, there is no risk-sharing and the loans will be of a lower quality. History shows that if

all the risk is placed in one place, the opportunity for foreclosure is much greater.

The housing demonstration proposal would also lead to many foreclosures. Although there is no mention of income targeting for these "affordable housing demonstrations", HUD does mention the possibility of ARMS. ARMS are not beneficial to truly low-income families. History has shown that adjustable rate mortgages do not work for low income borrowers. They simply do not have the income to support increases in their monthly mortgage payments. Low and moderate income people's incomes do not increase in a manner which would accommodate the increasing amount of the mortgage payment. I have included an analysis that NTIC performed in order to demonstrate this.

3. Rather than expanding the FHA program, HUD should be concentrating on ways to improve the program and to reduce the number of foreclosures. Currently, millions of HUD program dollars are used to repair the damage done by HUD's own programs. Reform should be centered around FHA lenders, property disposition, inventory management and other aspects of the FHA process. Reforms should address the following problems:

- Poor and non-existent pre-purchase, default, and delinquency counseling
- Poor and sloppy underwriting
- Failure to provide reasonable and effective relief to those in default, particularly through the failures of the Assignment Program.
- Vacant delivery requirements for claims that make almost every FHA foreclosure a vacant and abandoned property.
- Lack of maintenance and repair of HUD inventory
- Unrealistic appraisals of FHA properties that block the rapid sale of properties to community groups and contribute to the blight in communities.
- Faulty and poorly managed property disposition policies.
- Failure to monitor lender default rates at the neighborhood or census tract level and a failure to issue sanctions for lenders who have poor lending records (i.e. unacceptably high default rates).

(Ms. Cincotta)

Affordable Housing 97% LTV ARM Example

Annual Income: \$20,000

Mortgage Amount: \$50,000

Initial Mortgage Payment: \$555
(@ 8% -- Including PITI)

ARM

ARM adjusted after 4 years.

Lifetime max. cap on adj. is 6%.

Maximum Adj. is .5% per year.

Time After Origination	Monthly Income Growth@ 3%/ Year		Mortgage Payment	Mortgage Burden Adjusted for Inflation & Income Growth	
	Income	After 3.9% Inflation		3% Over Inflation	3.9% Inflation Income
	1,667	1,667	555	33.3%	33.3%
+ 1 Year	1,717	1,652	555	32.3%	33.6%
2	1,768	1,637	555	31.4%	33.9%
3	1,821	1,622	555	30.5%	34.2%
4	1,876	1,607	555	29.6%	34.5%
5	1,932	1,593	570	29.5%	35.8%
6	1,990	1,579	587	29.5%	37.2%
7	2,050	1,564	602	29.4%	38.5%
8	2,111	1,550	618	29.3%	39.9%
9	2,175	1,536	633	29.1%	41.2%
10	2,240	1,523	648	28.9%	42.6%
11	2,307	1,509			
12	2,376	1,495	678	28.5%	45.3%
13	2,448	1,482			
14	2,521	1,469	726	28.8%	49.4%
15	2,597	1,455			
16	2,675	1,442	753	28.2%	52.2%

NTIC Analysis: March, 1994.

(Ms. Cincotta)

AFFORDABLE HOUSING 97% LTV ARM EXAMPLE

ANNUAL INCOME: \$20,000
 MORTGAGE AMOUNT: \$50,000
 INITIAL MORTGAGE PAYMENT: \$555
 (AT 8% INCLUDING PITI)
 ARM
 ARM ADJUSTED AFTER 4 YEARS
 MAXIMUM ADJUSTMENT .5% ANNUALLY
 LIFETIME MAXIMUM CAP ON ADJUSTMENT IS 6%

EXPLANATION OF TABLE

The first column (Time After Origination) is showing the number of years after the loan originated.

The second column (Income) is showing the monthly income of a person who's income increases at a rate of 3% per year.

The third column (After 3.9% Inflation) is showing a person's buying power adjusted for inflation at 3.9%- the average CPI increase for the last seven years in Chicago. (U.S. Department of Labor, Bureau of Labor Statistics. 1987-1994) Notice that while the individual's income is growing, his/her actual buying power is decreasing at a rate of .9% annually.

The fourth column (Mortgage Payment) is showing the dollar amount of the monthly mortgage payments.

The fifth column (3% Over Inflation) is showing what percentage of a person's buying power (income after inflation factor) will be devoted to mortgage payments if the individual's income increases at a 3% rate over inflation (6.9% total annual income growth). In this case, the payments are taking up less percentage of buying power after sixteen years than originally (33.3% as opposed to 28.2%). However, one must remember that this case would require a 6.9% annual increase in income to be appropriate.

The sixth column represents the individual's case who's income grows at a 3% annual rate while inflation grows at a 3.9% annual rate. This column paints an entirely different picture of the individual's buying power than does column five. A 33.3% mortgage cost to the individual in year one increases to a whopping 52.2% mortgage cost in year sixteen. When one looks at the actual buying power of an individual with a 3% annual income increase with a 3.9% annual CPI increase, this is obviously not an affordable housing program.

Furthermore, the average annual income increase for Industry/Manufacturing jobs in Chicago is 1.7. (adjusted average, Department of Labor, Bureau of Labor Statistics, 1987-1993). If the numbers were run for a 1.7% increase in salary and a 3.9% increase in CPI, the picture the numbers would paint us would be a very realistic one for our folks in Chicago, but a much worse picture

for the ARM program than already presented. Thus, in our opinion, the ARM is not a healthy way to approach affordability for low-mod families. The annual increase in interest paid on the mortgage is too great of a shock.

**STATEMENT TO THE HOUSE COMMITTEE ON BANKING,
FINANCE & URBAN AFFAIRS**

**SUBCOMMITTEE ON HOUSING & COMMUNITY
DEVELOPMENT**

Washington, D.C.

May 5, 1994

By

**MICHAEL BODAKEN
NATIONAL HOUSING TRUST**

Mr. Chairman, members of the Committee, thank you for inviting the National Housing Trust to participate in this hearing today. My name is Michael Bodaken and I am the President of the National Housing Trust, a national nonprofit organization formed in 1986, dedicated exclusively to the preservation of affordable housing. Our board of directors includes representatives of all major interests in the preservation area, including tenant advocates, owners and managers, state housing agencies, national and regional nonprofit intermediaries, housing scholars and other housing professionals who care deeply about protecting this irreplaceable resource. The Trust was active in mediating the disparate interests of the housing community during the 1990 LIHPRHA debate and provided technical support to the Hill staff on the 1992 amendments to Title VI.

The organization serves as an informational clearinghouse on program developments for the public and private sector. In addition to its public policy and program monitoring role, the Trust provides technical assistance on sales transactions to nonprofit and resident based purchasers of this housing. Finally, in cooperation with HUD, the Trust is currently holding a series of working meetings throughout the United States to discuss ways to simplify the program and reduce its cost to the American taxpayer.

I. Legislative History, Policy Objectives and the Administration's Proposals Set Forth at Title V of HR 4310.

My testimony addresses the Administration's proposals to change the 1990 Preservation Act, set forth at Section 501 of proposed HR 4310. It is the Trust's position that these "miscellaneous" amendments to LIHPRHA will eviscerate the program- causing the loss of the most valuable properties and that the cost savings will be nominal. The "most valuable properties" are those that are located in integrated communities, are in the best physical condition, and have a racial/economic mix. Today, I will explain how these "miscellaneous" amendments actually eviscerate the preservation housing program created by Congress to preserve these properties.

Let me proceed directly to the heart of the issue presented by the Administration's bill. LIHPRHA was, as you know, a hard fought and remarkable achievement. Congress acted to preserve over 460,000 prepayment eligible units of affordable housing , averting massive displacement of low income people and loss of housing stock. After a difficult test of the legislative process, a program emerged that has been recognized by all for its fairness and balance.

The program, referred to in the housing community as the Grand Compromise, was designed to deliver the following outcomes:

- (1) Maintenance of affordable rents and permanent low income use restrictions for the life of these properties;
- (2) Preservation of economically diverse and ethnically integrated housing;
- (3) Comprehensive repairs to this housing which is at least 20 years old; and
- (4) Compensation to owners for an adjustment of their contract right to prepay their mortgage.

I want to address the changes in Title VI proposed by HUD in the reauthorization process which would dramatically undermine the careful balance of interests achieved in the Act.

The proposals are (1) to reduce the federal cost limit to 100% of the Section 8 Fair Market Rent; (2) eliminate the Mandatory Sales process and the special grant fund reserved for sale of projects and exceed that limit; (3) reduce appraised value for sales to market rate residential rather than highest and best use; and (4) eliminate the homeownership program.

These program reforms are not grounded in the real experience of the program, will lead to prepayment of some of the portfolio's most valuable properties and will seriously disrupt the lives of residents in these properties. Worse, the measures would lead to the loss of the most precious housing stock protected by this program. Remarkably, the measures do not achieve any real cost savings for the program. Finally, all of these proposals have been recently rejected by Congress.

The cost limit reduction, in particular, is an arbitrary change to a carefully crafted statutory provision based on market modeling. It will cause the loss of units in high cost areas as well as projects in communities where the Section 8 FMR and submarket values do not correspond.

Equally troublesome, by eliminating the mandatory sales provision of the statute, the Administration's proposal bluntly removes both the method and the means the community may employ to preserve properties in high cost neighborhoods with good schools and services.

Finally, the Trust seriously questions whether any savings would be realized by the proposals, particularly when the added cost of relocation vouchers for displaced residents is netted against putative savings, including the funds recaptured from Section 236 subsidies due to increased prepayments.

II. The Present Status of Preservation

Today's testimony is heard at a particularly auspicious moment in the history of this program. The program encompasses some 3,800 prepayment eligible properties. For some time, it appeared that LIHPRHA activity was nascent. Over the past year, data produced by the National Housing Trust demonstrates increasing LIHPRHA activity. The program is truly national in scope.¹

The following data summarizes LIHPRHA activity as of February 28, 1994.

- Some form of activity has been taken on 773 of the projects eligible for Title VI;
- **The 773 Title VI Notices of Intent filed by owners involve projects in 47 states, the Caribbean, and the District of Columbia.** The program is national in scope. Over 80,000 families and elderly households are residing in projects where an owner has decided to participate in LIHPRHA by filing a Notice of Intent.
- The 773 Title VI Notices of Intent break out as follows:

• 497 Extend	(54,806 units)	(64%)
• 269 Sell	(24,735 units)	(35%)
• 7 Terminate	(596 units)	(1 %)

¹ Attached as Exhibit "A" is the Trust data on Title VI activity by state through February 28, 1994.

- In 9 states, 22 or more Title VI Notices of Intent have been filed, representing 440 projects of the 773 total, or 57% of all project filings, and 42,470 units.

o	California	(184 Projects)	(15,228 Units)
o	Washington	(53 Projects)	(2,438 Units)
o	Oregon	(40 Projects)	(1,523 Units)
o	Texas	(37 Projects)	(4,683 Units)
o	Illinois	(29 Projects)	(5,292 Units)
o	Massachusetts	(26 Projects)	(5,063 Units)
o	Wisconsin	(25 Projects)	(2,047 Units)
o	Virginia	(24 Projects)	(3,625 Units)
o	Minnesota	(22 Projects)	(2,571 Units)

The projects range in size from 9 to 550 units. There are hundreds of other "transition rule" projects, i.e., projects eligible for processing under the predecessor statute, Title II of the 1987 Act or Title VI, at the owner's election. LIHPRHA is truly operating throughout the nation.

III. HUD's Current Attempts to Redesign LIHPRHA

Since the program became operational in May, 1992, all of the stakeholders have acknowledged the program's slow and cumbersome nature. Owner frustration with HUD's delays in appraisals and interpretations of the rules was evident. Certain tenant organizations were upset with the fact that the residents were not receiving Notices of Intent in violation of the statute. This treatment was at odds with the resident participation thrust of the statute.

In recognition of the problems in the field, in late December of last year, HUD asked the Trust to begin a series of "Redesign LIHPRHA" meetings with all of the stakeholders of the program: residents, owners, nonprofits, state and local housing agencies, technical assistance providers, etc.

Everyone has been extremely impressed with HUD's willingness to accept suggested administrative changes to streamline the program. Further, the participants have developed innovative proposals to help reduce the budget authority and cost of the program. Equally, if not more important, HUD Central has recently published one final and one draft "Mid Course Correction" Memos to the field which are designed to streamline the program. HUD is actively seeking solutions with everyone affected by the

program. As never before, the residents, owners, HUD and others are working together to make the program efficient and workable.

In light of this progress, it is all the more remarkable that the Administration would choose this moment in the relatively short history of the program to propose dramatic and, arguably, devastating, changes to the program structure.

IV. The Proposed Reduction in Federal Cost Limits Will Affect Valuable Properties Across the United States and Should Not Be Imposed Until HUD Determines the Impact on Minority Households Residing in These Properties.

The federal cost limits are currently set at 120% of Fair Market Value or 120% of the prevailing rents in the local community, whichever is greater. (The second part of the test was added to the federal cost limit test when it was determined by extensive market modeling that the Section 8 Fair Market Rent is not a good predictor of a property's value relative to comparable properties or of the cost effectiveness of preserving a particular property.)² For these reasons, the Administration's proposal to set the federal cost limit at 100% of the Section 8 FMR was rejected when Title VI was formulated in 1990, in the 1992 Amendments to the Act, and again in the 1994 Budget package proposed by the Administration.

The combined impact of the reduction of Federal Cost Limits and the elimination of the mandatory sale section of the statute is the following:

- 1. There will be more prepayments of this housing, dramatically reducing the number of affordable housing units preserved.**

The proposal to reduce the federal cost limit is often viewed as a high cost area concern. While California, Massachusetts and New York would be dramatically impacted, use of a 100% Section 8 FMR standard will tend to push projects over the limit in other areas as well. Without extensive econometric modeling, it is difficult to identify every market and submarket where use of a 100% Section 8 FMR limit might lead to arbitrary results. Still, the attached tables suggest a dramatic impact on the housing stock that Congress intended to preserve, an impact felt throughout the nation.

² See Conference Report of Title VI of the Cranston-Gonzalez National Affordable Housing Act: Preservation of Affordable Rental Housing, Federal Cost Limit Discussion, 1990 and Senate Committee Report to accompany S. 3031, July 23, 1992.

Two tables are attached to my testimony. The first, prepared by Recapitalization Advisors, a Boston-based firm that represents over 50 owner groups in the Title II/VI process, demonstrates the impact of the proposal on projects located all over the United States. The second, prepared by the California Housing Partnership Corporation, concerns the specific impact of the reduction of federal cost limits in the State of California.³

According to Recapitalization Advisors, 20 of the 58 projects (34%) on which the firm is currently working, representing areas across the United States, totaling over 1,320 units, would exceed the reduced Federal Cost Limit proposed by the Administration. This would lead to an owner filing a Notice of Intent to Terminate Affordability Restrictions causing possible loss of this housing resource and serious disruption/displacement to the residents who reside there. The data, based on actual preservation valuations conducted by HUD, concludes that HUD's proposal to reduce the Federal Cost Limits would impact housing developments in Arkansas, Arizona, Iowa, Kentucky, Washington and Minnesota as well as California, New York and Massachusetts.

While the impact would be felt throughout the country, California would be particularly hard hit. According to the California Housing Partnership Corporation, the preservation of approximately 43% of the projects in California would be jeopardized by a reduction in FCL from 120% to 100%.

The State of Illinois would likewise be affected. The federally financed lakefront properties in Chicago have been called the "fertile crescent" of preservation. At least two of these projects would not have been preserved had HUD's proposal been enacted last year. One, the Carmen Marine project, a resident council purchase, was heralded by HUD in a ceremony attended by the Assistant Secretary for Housing and other administration officials. In Congressman Rush's district, Lake Village East, 218 units located on the lakefront at 47th and Lake Park, has been appraised with transfer preservation rents at over 100% of FMR. Again, the feasibility of this project along Chicago's lakefront would be threatened by HUD's proposal.

From the west coast to the east, the midwest and the south, HUD's proposal threatens the preservation of literally thousands of units of federally insured housing stock.

³ A copy of the Recap Advisors Table is attached and as Exhibit "B." The California Housing Partnership Table is attached as Exhibit "C." A full version of the Partnership's testimony and data will be submitted for the record.

The irony of HUD's proposal is evident. HUD's proposal will lead to prepayment and loss of the most valuable housing stock in the prepayment portfolio. It is precisely this housing stock which is most "at risk" of loss of affordability. Moreover, the reduction of FCL will disproportionately impact high cost, tight housing markets, a strategy which will lead to displacement of low income residents from better neighborhoods with better schools and services.

2. The potential impact on minority households residing in properties which would exceed the new federal cost limit standard proposed by HUD.

HUD cannot choose to ignore the impact this proposal might have on housing opportunities afforded to minority households currently residing in prepayment eligible units. Just one year ago, my predecessor, Sara Johnson, testified before you on the proposed reduction of federal cost limits. Ms. Johnson noted that one critical point of preservation had often been overlooked: "The tremendous social significance of safeguarding housing opportunities for minorities in desirable neighborhoods with good schools and services cannot be underestimated." ⁴

One year later, the issue of fair housing is at the top of HUD's legislative agenda. Indeed, that issue is of central importance to the "Housing Choice and Community Investment Act of 1994." Moreover, today, this Administration has ordered HUD to take into account the fair housing impact of its programs. According to President Clinton's January 17, 1994 Executive Order titled "Federal Leadership of Fair Housing," Secretary Cisneros is directed to review HUD's programs "to assure that they contain the maximum incentives to affirmatively further fair housing and to eliminate barriers to free choice where they continue to exist. This review shall include Federally assisted housing, Federally insured housing. . . including those of the Federal Housing Administration."⁵ Thus, HUD should not advance a radical reduction in federal cost limits until it determines the fair housing implications of this proposal.

⁴ Testimony of Sara E. Johnson, House Subcommittee on Housing & Community Development, April 20, 1993.

⁵ 50 Fed.R.eg.pp. 8513 (February 22, 1994-Presidential Documents).

V. The Elimination of the Mandatory Sales Provision and Grants for Purchases in Excess of the Federal Cost Limits

Directly related to the reduction in the federal cost limits is HUD's proposal to eliminate Section 221, the Mandatory Sales provision in LIHPRHA.

The impetus for the mandatory sales provision was the sales of high cost projects, arguably the best housing stock in the portfolio, to purchasers who would commit to maintaining the affordable nature of the property throughout its remaining useful life.

The statute presently provides that an owner who exceeds the federal costs limits test has two choices: (a) voluntarily decide to seek incentives within the federal cost limits or (b) seek to prepay the mortgage, subject to offering the housing for sale to a purchaser who agrees to pay full value to own and maintain the housing as affordable. If an owner receives such an offer to purchase the housing at its preservation value, then the owner is obligated to accept that offer and is barred from prepaying. This is the "mandatory" meaning inherent in Section 221.

By eliminating the mandatory sales provision, owners will be forced to either take less than fair market value or, more likely, prepay their mortgages. One of these alternatives for the owner, taking less than fair market value, is not appealing. **That means that the owner will probably make the other choice: prepay the mortgage and terminate affordability restrictions.**

This proposal is particularly troubling to local and state governments. The current statute permits such entities to purchase properties subject to the mandatory sales provision. **Pursuant to the Administration's proposal, an owner could prepay its mortgage regardless of a local public agency's desire to fund the gap to help a resident council or nonprofit acquire the property.** That is, in areas like Los Angeles, California, where the Housing Department has created a "Preservation Unit" to help save economically and racially integrated prepayment properties, HUD's proposal would permit the owner to prepay where the federal costs were exceeded. HUD's proposal essentially handcuffs local and state governments. No longer could the Department and local community reach a consensus on a purchase option, providing the owner fair market value, and still retaining the property as affordable.

The Administration's proposal to eliminate Section 221 also eliminates the grant authorization made in Section 221 for purchases in excess of the Federal Cost Limits. This grant provision was specifically formulated by a former member of this committee, Congresswoman Nancy Pelosi (D-CA) to preserve certain valuable housing developments.

Congresswoman Pelosi recognized the critical importance, and long term savings, of preserving economically and otherwise integrated housing developments in better neighborhoods. The grant portion of Section 221 affords purchasers a means to preserve these properties.

For all of the reasons above, the elimination of the mandatory sales program is unacceptable to the community and, I hope, to Congress as well.

VI. Modifying the Appraised Values for Sales Projects from Highest and Best Use to Market Rate Residential

By ignoring condominium conversion potential and other non-residential use such as a hotel or shopping center, this change would limit compensation to owners to less than fair market value for the relatively few properties which have non-market rate residential highest and best use.

There are two fundamental flaws with this proposal: (1) it affects those properties which are of highest value and which this program was designed to protect and (2) according to Recapitalization Advisors, which represents more owners than any other consultant the United States, relatively few properties would be impacted, making the cost savings *di minimus*.

More important, this provision was an important part of the balance inherent in Title VI. Passage of this provision would violate the compromise pact of 1990.

VII. Elimination of Resident Homeownership Option

Under LIHPHA, a Resident Council may acquire the property to convert it to Resident Homeownership. The Interim Regulations authorize two types of homeownership programs: resident homeownership with no continuing HUD subsidies and limited equity cooperative ownership with continuing HUD subsidies. The Administration proposes to eliminate the resident homeownership program that has no continuing HUD subsidies.

HUD's own calculations, revealed at a HUD/Trust Redesign LIHPRHA workshop in February of this year are that no more than 3 such proposals are presently in the pipeline. Thus, this proposal does not produce meaningful savings.

Again, however, the symbolic importance of the program should not be underestimated. Some resident groups believe this to be a key feature of the legislative compromise and would object if this provision were eliminated.

VIII. The Predicted Cost Savings of the Administration's Proposals Are Speculative

The savings that HUD anticipates from reduction of federal cost limits to 120% is speculative. Over the next five years, it is probably inaccurate.

First, it is important to note that the preservation rents for the project are based upon a "building block approach," i.e., the rent is the sum of a number of specific elements: annual debt service on the existing mortgage, annual debt service on an acquisition loan equal to 95% of Preservation Equity, annual debt service on the rehab loan, operating expenses and replacement reserves.⁶ Hence, as a matter of law, HUD's expenditures under this program are capped to what the true cost of preservation is for these properties.

Second, it is not at all clear that HUD's proposals would save any money for at least the next five years. HUD's proposed reforms require amendment of Section 215 (b) (2) (C) by providing that where the preservation rents exceed the Federal Cost Limit (amended to 100% of FMR), the owner could file a second notice of intent indicating its intent to terminate affordability restrictions "subject to compliance with the provisions of section 223."

Section 223 of the Act now provides that where an owner does not receive a purchase offer, the purchaser is unable to complete the purchase, or HUD is unable to fund an acceptable plan of action, any displaced low income family is entitled to a Section 8 certificate or voucher.

⁶ This example is for a sale transaction. Rents computed for a refinance scenario are based on the same elements, but an 8% return on preservation equity replaces the acquisition loan.

A comparison of the amount HUD would pay for relocation assistance to displaced residents to the amount HUD pays to preserve a unit presently occupied by a low income family is instructive. Over a five year period, HUD would pay more for vouchers and certificates than it currently pays to subsidize the acquisition/refinance and rehab of these properties under LIHPRHA.

According to HUD, it has funded 131 plans of action under the predecessor statute to Title VI, ELIHPA (Title II). Title II experience demonstrates a cost of approximately \$21,000/unit or approximately \$3,200 of Section 8 per year for 5 years. By contrast, in Fiscal Year 1994, Congress appropriated a level of funding for Section 8 contract renewals (certificate program) at a level of \$5,713 per year for 5 years.⁷ Notably, HUD's own estimate of the cost for Section 8 to preserve these units is much less. HUD's own estimate for Fiscal Year 1995 forecasts that it requires \$418.4 million in preservation appropriations, which will be used to provide incentives for 19,010 units or a cost of only \$4,401/unit.⁸

⁷ Congressional Justifications for 1995 Estimates, March, 1994 , Table, p. E-3.

⁸Ibid., Congressional Justifications , etc., p. D-5. (Annual Contributions for Assisted Housing. c. Preservation)

What Should be Done to Change LIHPRHA and Simplify the Program?

LIHPRHA is not perfect. The program is administratively complex, has been unevenly administered and is arguably too expensive. Further, many are concerned that the application of Section 8 preference rules to all units upon turnover will dramatically change the economic mix of these projects. Finally, rent increases on existing residents can lead to tenant turnover, a result neither contemplated nor desired.

HUD and the Trust have convened meetings for the first time with all of the LIHPRHA stakeholders: owners, residents, nonprofits, technical assistance providers, etc. A number of innovative financing and other proposals have emerged over the past few weeks. Some, such as delegation of processing to state agencies, are already permitted under the law, but need to be encouraged. Others, such as changing the underwriting to take into account the tenant's contribution to the rent or limiting the application of Section 8 preference rules upon turnover of units occupied by residents earning between 50-80% are being evaluated. The Administration has asked the Trust to convene meetings with stakeholders in Los Angeles, Chicago and Boston to get input from residents, owners and others about the current program and suggestions on how it can be improved. These meetings will take place in June and July and we hope to have crafted a report to HUD and Congress by this autumn.

Conclusion

The choice before you is plain: For minor, speculative reductions in cost, the Administration's proposals threaten the Grand Compromise reached in 1990, will lead to the loss of tens of thousands of units of affordable housing stock in this country and disrupt the lives of tens of thousands of households. The proposals should be rejected. In the meantime, we should all search for proposals which will truly cut the program's cost, make it more comprehensible and easier to administer.

STATUS OF TITLE VI PROJECTS; STATES RANKED BY LEVEL OF ACTIVITY

State	Number of Units	Number of Projects	Filed Notice to Extend	Filed Notice to Sell	Filed Notice to Terminate	TOTAL TITLE VI NOTICES FILED BY: 2/28/94	Total Title VI Units with Notices of Intent Filed
California	38,818	418	114	70	0	184	15,228
Washington	7,790	132	22	31	0	53	2,438
Oregon	4,789	115	30	10	0	40	1,523
Texas	26,389	200	18	19	0	37	4,683
Illinois	21,841	123	21	8	0	29	5,292
Massachusetts	27,237	156	19	7	0	26	5,063
Wisconsin	7,633	101	15	10	0	25	2,047
Virginia	16,129	115	22	2	0	24	3,625
Minnesota	7,318	71	15	7	0	22	2,571
Maryland	16,872	101	12	5	1	18	3,892
Florida	11,002	86	9	7	1	17	1,907
Idaho	1,031	24	8	6	1	15	680
Pennsylvania	17,691	109	12	3	0	15	2,427
Michigan	21,221	136	5	9	0	14	1,854
New York	59,767	233	13	1	0	14	3,016
North Carolina	7,234	73	8	6	0	14	1,208
Utah	1,003	21	11	3	0	14	728
Rhode Island	4,860	40	10	3	0	13	1,755
Indiana	12,978	85	7	5	0	12	1,263
Iowa	3,572	37	8	4	0	12	871
New Jersey	9,163	91	10	2	0	12	1,270
Tennessee	11,254	98	9	2	1	12	1,546
Connecticut	13,977	105	7	4	0	11	1,209
Mississippi	3,382	34	11	0	0	11	1,047
Arkansas	4,269	53	8	1	0	9	618
Louisiana	7,680	51	9	0	0	9	1,076
Nebraska	1,556	19	6	3	0	9	746
Arizona	3,190	35	5	3	0	8	685
Georgia	12,004	113	6	1	1	8	758
Kentucky	6,010	77	4	2	2	8	754

EXHIBIT A

STATUS OF TITLE VI PROJECTS: STATES RANKED BY LEVEL OF ACTIVITY

State	Number of Units	Number of Projects	Filed Notice to Extend	Filed Notice to Sell	Filed Notice to Terminate	TOTAL TITLE VI NOTICES FILED BY: 2/28/94	Total Title VI Units with Notices of Intent Filed
Missouri	8,933	83	0	8	0	8	1,294
Alabama	4,011	40	3	4	0	7	584
Montana	1,352	21	6	1	0	7	644
Ohio	24,139	244	6	1	0	7	701
South Carolina	5,576	54	3	4	0	7	701
South Dakota	2,221	57	6	1	0	7	334
Colorado	6,722	78	6	0	0	6	729
North Dakota	412	9	3	3	0	6	286
Caribbean	4,508	23	0	4	0	4	918
Hawaii	1,883	16	0	4	0	4	385
Kansas	1,262	17	2	1	0	3	182
Nevada	857	8	1	2	0	3	220
Alaska	588	9	2	0	0	2	125
Dist. of Columbia	4,928	30	1	1	0	2	456
Maine	1,629	14	1	0	0	1	200
New Hampshire	1,864	18	1	0	0	1	160
New Mexico	2,213	26	1	0	0	1	188
Oklahoma	4,581	42	1	0	0	1	150
Vermont	884	7	0	1	0	1	100
Delaware	636	5	0	0	0	0	0
West Virginia	124	2	0	0	0	0	0
Wyoming	503	11	0	0	0	0	0
TOTALS	467,486	3,865	497	269	7	773	80,137

SOURCE: This listing combines information from HUD Central and Selected Field Offices, Fannie Mae, Selected State Agencies, and preservation advocates who monitor notices, including CHPC, CEDAC and CCDC.

LIHPRHA Data Group

Value Determinations So Far

Num	City	St	Apts	TPE more BPE?	Rehab costs per apt	Extension Pres Eq per apt	Transfer Pres Eq per apt	Is submarket relevant?	Average TPR per apt	Required TPR's vs FMR	Over FCL at 100%?
7	MEMPHIS	TN	179		0	4,895	4,895		239	53%	
40	CANOGA PARK	CA	78		526	2,152	2,152		54	59%	
8	MEMPHIS	TN	138		0	1,534	1,534		277	62%	
30	SYRACUSE	CA	136		1,772	34,634	34,634		674	65%	
18	COON RAPIDS	MN	96		2,376	12,090	12,090		437	67%	
24	LINCOLN	NE	90		7,897	12,215	12,215		369	69%	
33	FONTANA	CA	64		1,963	18,271	18,271		533	72%	
16	CHASKA	MN	86	94%	2,947	5,458	10,586		491	73%	
38	CHATSWORTH	CA	196		2,794	38,206	38,206		667	76%	
31	OILDALE	CA	104		418	19,313	19,313		512	79%	
20	OAKDALE	MN	177		3,563	12,682	12,682		467	79%	
3	COUNCIL BLUFFS	IA	146		3,721	7,823	7,823		410	80%	
25	LINCOLN	NE	60		409	12,377	12,377		371	80%	
14	SHAKOPEE	MN	62		969	16,161	16,161		430	80%	
21	ST. PAUL	MN	104		5,430	10,337	10,337		469	81%	
39	LOS ANGELES	CA	64		632	40,673	40,673		724	81%	
27	BELLEVUE	NE	104		4,389	4,384	4,384		299	82%	
41	BAKERSFIELD	CA	12		1,225	11,802	11,802		456	82%	
32	OXNARD	CA	168		2,051	44,645	44,645		772	82%	
46	LOS ANGELES	CA	75		2,124	22,397	22,397		540	82%	
28	GRAND ISLAND	NE	50		1,247	15,608	15,608		418	83%	
44	LOS ANGELES	CA	32		800	19,463	19,463		526	84%	
36	TORRANCE	CA	10		7,391	40,304	40,304		726	84%	
17	BURNSVILLE	MN	200		4,782	17,274	17,274		546	84%	
45	PACOMA	CA	68		2,154	23,051	23,051		613	85%	
42	LOS ANGELES	CA	40		640	28,859	28,859		624	87%	
43	LOS ANGELES	CA	59		3,250	14,735	14,735		544	88%	
29	SOUTH SIOUX CITY	NE	96		1,600	19,276	19,276		431	89%	
5	INDIANOLA	IA	72		1,748	8,667	8,667		464	90%	
13	LOUISVILLE	KY	72		3,065	8,025	8,025		411	90%	
37	CARSON	CA	38		749	41,062	41,062		771	90%	
10	OWENSBORO	KY	100		1,027	8,191	8,191		313	91%	
11	OWENSBORO	KY	108		1,175	9,950	9,950		346	93%	
34	SAN GABRIEL	CA	14		1,710	57,519	57,519		803	93%	
4	AMES	IA	60		2,404	13,180	13,180		455	94%	
52	TRACY	CA	72		6,391	17,262	17,262		552	96%	
22	EAGAN	MN	144		2,801	16,858	16,858		600	97%	
26	FREMONT	NE	84		2,487	14,124	14,124	0%	376	97%	
58	MOSCOW	ID	55		4,410	17,151	17,151		474	100%	Yes
55	SACRAMENTO	CA	140		3,440	29,697	29,697		586	101%	Yes
57	SOPLAKE	WA	20		1,626	6,935	6,935		365	101%	Yes
35	ONTARIO	CA	86		1,191	38,027	38,027		756	103%	Yes
12	LOUISVILLE	KY	128	5%	654	13,544	14,195		405	105%	Yes
54	SACRAMENTO	CA	32		5,550	21,072	21,072		581	106%	Yes
2	MUSCATINE	IA	72		2,045	10,147	10,147		443	107%	Yes
6	DUBUQUE	IA	108		3,051	10,779	10,779		494	107%	Yes
47	YUMA	AZ	80		3,222	7,718	7,718		656	109%	Yes
51	FOLSOM	CA	48		3,929	26,498	26,498		616	110%	Yes
48	WOODLAND	CA	48		5,840	23,012	23,012		616	110%	Yes
49	JACKSON	CA	30	75%	8,397	14,967	26,233		640	112%	Yes
1	CARROLL	IA	56		3,749	4,044	4,044		350	114%	Yes
50	ROCKLIN	CA	32		7,519	22,178	22,178	1%	660	118%	Yes
15	BEWIDJ	MN	60		2,130	9,836	9,836	2%	455	122%	Yes
19	BRAINERD	MN	60		4,425	9,526	9,526	6%	459	122%	Yes
56	SPOKANE	WA	50		1,669	16,629	16,629		527	124%	Yes
53	DAVIS	CA	40	119%	2,879	16,281	35,602		697	128%	Yes
9	FAYETTEVILLE	AR	128		1,119	12,304	12,304		558	130%	Yes
23	STILLWATER	MN	51		7,703	14,127	14,127		1,086	165%	Yes
			4,782	2%	2,649	17,125	17,467	No	510	87%	

EXHIBIT B

**EFFECT OF PROPOSED REDUCTION OF FEDERAL COST LIMIT FROM
120% TO 100% OF FAIR MARKET RENT (FMR) UNDER TITLE VI (LJHPHRA)
STATE OF CALIFORNIA**

Revised:

5/2/84

SAMPLE TITLE II AND TITLE VI PROJECTS IN CALIFORNIA*

No. Units	Site	Title Sec. VI	Appraised Value	Per Unit Value	Exceeded Federal Cost Limit?	
					120% FMR	100% FMR
38	Baldwin Park	I	2,275,000	83,194	No	No
39	Calverton	I	1,880,000	40,513	No	Yes
100	Campbell	VI	10,668,324	108,683	Yes	Yes
24	Canoga Park	I	1,785,000	74,375	No	Yes
82	Canoga Park	VI	4,800,000	88,537	No	No
196	Chatsworth	VI	9,884,568	80,431	No	No
48	Davis	VI	1,316,500	45,413	No	Yes
101	Duarte	I	6,025,000	69,653	No	No
132	East Los Angeles	I	8,500,000	84,384	No	No
87	El Sobrante	VI	2,781,000	48,438	No	No
84	Fontana	VI	1,325,000	30,078	No	No
84	Galaxy	I	3,750,000	69,444	No	No
284	Hewesden Gardens	I	18,000,000	68,182	No	Yes
100	Hanford	VI	3,075,000	30,750	No	Yes
80	Indio	I	2,880,000	38,000	No	No
208	Indio	VI	8,085,882	30,097	No	No
30	Jackson	VI	1,053,000	35,100	No	Yes
133	La Puente	I	7,650,000	57,519	No	No
280	Long Beach	I	10,500,000	69,643	No	Yes
248	Long Beach	I	17,400,000	70,161	No	Yes
120	Los Angeles	VI	4,060,000	38,333	No	No
48	Los Angeles	I	1,437,100	35,928	No	No
33	Los Angeles	I	1,740,000	48,714	No	No
18	Los Angeles	I	805,000	38,553	No	No
19	Los Angeles	I	860,000	60,000	No	No
34	Los Angeles	I	1,475,000	61,428	No	No
72	Los Angeles	I	4,770,000	88,250	No	No
190	Los Angeles	I	9,800,000	79,187	No	Yes
43	Los Angeles	I	3,300,000	76,744	No	Yes
16	Los Angeles	VI	810,000	50,625	No	No
132	Los Angeles	I	3,475,000	41,477	No	No
120	Mayeville	VI	2,020,884	21,889	No	Yes
18	Mountain View	I	1,625,000	101,563	No	Yes
372	National City	I	17,412,000	46,906	No	No
192	Oxnard	I	10,000,000	85,789	No	No
80	Palm Springs	I	3,250,000	84,167	No	Yes
90	Petaluma	VI	4,961,444	55,127	No	No
378	Richmond	I	22,000,000	88,201	No	No
88	Sacramento	VI	4,053,000	41,357	No	Yes
140	Sacramento	VI	5,738,250	40,888	No	Yes
62	Salinas	I	2,506,095	40,421	No	No
160	San Diego	I	8,053,000	80,331	No	Yes
144	San Diego	I	7,344,400	81,003	No	Yes
240	San Diego	I	12,660,000	82,333	No	Yes
180	San Diego	I	8,478,000	52,975	No	Yes
168	San Diego	VI	10,000,000	59,624	No	Yes
262	San Diego	I	15,800,000	80,303	No	Yes
278	San Francisco	I	25,585,000	89,038	No	Yes
300	San Jose	I	18,400,000	81,333	No	No
400	San Jose	I	25,500,000	83,750	No	No
82	San Jose	I	4,400,000	84,615	No	Yes
28	San Jose	I	1,780,000	85,385	No	No
168	San Jose	VI	8,351,460	50,802	No	No
88	San Pedro	I	4,870,000	48,485	No	No
130	San Jose	VI	8,940,000	53,365	No	Yes
108	Stamun	VI	4,719,005	44,518	No	No
78	Tracy	VI	1,837,778	28,813	No	No
162	Vallejo	I	7,400,000	48,884	No	Yes
164	Vallejo	VI	6,749,927	87,337	No	No
158	West Covina	I	10,000,000	83,291	No	No

*Sample based on 341 (f) loan applications submitted by TFI Financial and Bank of America

Source: TFI Financial Corporation; Bank of America

Prepared by: California Housing Partnership Corporation

**EFFECT OF PROPOSED REDUCTION OF FEDERAL COST LIMIT FROM
120% TO 100% OF FAIR MARKET RENT (FMR) UNDER TITLE VI (LIHPHA)
STATE OF CALIFORNIA**

Revised

5/2/94

ASSUMPTIONS

Average Bedroom Size (for FMR)	2 BR
Interest Rate on 241(f) Acquisition/Rehab Loan	8.50%
Mortgage Insurance Premium	0.50%
Annual Per Unit Operating Expenses	\$,200
Annual Per Unit Replacement Reserves	400
Per Unit Existing HUD Section 236 Loan Balance	11,000
Debt Service on Existing HUD Loan	500
Project Occupancy	87%
Per Unit Rehabilitation Financed by 241(f)	7,500
Amortization (years)	40

Metropolitan Statistical Area	1994 2-BR FMR	Minimum Per Unit Transfer Pres. Value Required to Exceed Federal Cost Limit*	
		120% FMR	100% FMR
Los Angeles - Long Beach	864	89,208	67,573
Merced	531	38,178	25,882
Modesto	695	48,793	33,894
Oakland	815	81,846	61,438
Orange County	882	81,912	68,827
Redding	483	31,988	18,872
Riverside - San Bernardino	647	66,806	40,405
Sacramento	820	52,549	37,024
Salinas	764	74,184	55,059
San Diego	725	68,324	50,170
San Francisco	1004	110,241	85,101
San Jose	854	102,729	78,841
San Luis Obispo - Atascadero - Paso Robles	702	84,869	47,291
Santa Barbara - Santa Maria - Lompoc	834	84,700	63,817
Santa Cruz - Watsonville	936	100,025	76,568
Santa Rosa	791	78,240	58,434
Stockton - Lodi	588	44,887	30,639
Vallejo - Fairfield - Napa	704	65,169	47,641
Venture	909	85,968	73,207
Visalia - Tulare - Porterville	477	31,065	19,121
Yolo	824	53,150	37,525
Yuba City	452	27,309	15,991
Amador (non-metro)	590	48,042	33,268
Kings (non-metro)	484	32,116	19,997
Imperial (non-metro)	588	47,741	33,016

*Note: These numbers are for general estimating purposes only and are not based on project-specific operating, repair cost or loan balance data. The determination of whether a specific project exceeds the federal cost limit is conducted by HUD after a care assessment of these variables and is reported on Form 9807. Also note that this analysis does not look at the effect of Prevailing Market Rates in the cost limits test.

Prepared by: California Housing Partnership Corporation

EXHIBIT C - 2

**EFFECT OF PROPOSED REDUCTION OF FEDERAL COST LIMIT FROM
120% TO 100% OF FAIR MARKET RENT (FMR) UNDER TITLE VI (LIHPRHA)
STATE OF CALIFORNIA**

Revised:

5/2/94

SUMMARY:			
		No.	%
<u>PROJECTS:</u>	TOTAL PROJECTS IN SAMPLE	88	100.0%
	PROJECTS EXCEEDING FEDERAL COST LIMIT AT 120% FMR	1	1.7%
	PROJECTS EXCEEDING FEDERAL COST LIMIT AT 100% FMR	28	43.3%
<u>UNITS:</u>	TOTAL UNITS IN SAMPLE	7,878	100.0%
	UNITS EXCEEDING FEDERAL COST LIMIT AT 120% FMR	100	1.3%
	UNITS EXCEEDING FEDERAL COST LIMIT AT 100% FMR	3,485	45.1%

Prepared by: California Housing Partnership Corporation

EXHIBIT C - 3

Questions for Mr. Bodaken from Chairman Gonzalez
Hearing on May 5, 1994

1. About the resident homeownership aspect of the preservation program--it seems to me that the purpose of preservation was to preserve affordable rental housing. Rather than rejecting the elimination of the homeownership provisions, what if the Congress "grandfathered" the three or more projects under these provisions?

2. At the same time as Congress is fighting to preserve the delicate balance achieved in 1990, we are also fighting the battle of the budget. Can you give us some hard evidence that preservation processing is accelerating and the requisite appropriations level we should seek for preservation?

3. Can you preview any other cost savings measures or refinements to the preservation program from the Task Force work to date?



**Michael Bodaken's Responses to Questions From May 5, 1994 Hearing
Subcommittee on Housing and Community Development
"H.R. 3838, Housing and Community Development Act of 1994"**

Chairman Henry B. Gonzalez Questions

1. Question: About the resident homeownership aspect of the preservation program— it seems to me that the purpose of preservation was to preserve affordable rental housing. Rather than rejecting the elimination of the homeownership provisions, what if the Congress "grandfathered" the three or more projects under those provisions?

Response: The purpose of the legislation was largely intended to preserve affordable rental housing. However, one purpose was to permit residents a choice in how this housing would be preserved. Homeownership provides that option.

There are, however, real problems with the homeownership program as presently structured. Unlike the rental program or a cooperative approach, the resident homeownership program fails to provide permanent affordability. The homeowner is precluded from receiving any "speculative" equity for six years. After that time passes, HUD and the original owner split the increased value on a shared basis, with HUD receiving less and less of the increased equity to year 20, at which time the affordability restriction is removed entirely. Thereafter, the affordable restrictions are entirely voluntary.

If the committee is of a mind to eliminate the homeownership provision, I would encourage amendments which require permanent affordability of those homes that residents choose to own.

2. Question: At the same time as Congress is fighting to preserve the delicate balance achieved in 1990, we are also fighting the battle of the budget. Can you give us some hard evidence that preservation processing is accelerating and the requisite appropriations level we should seek for preservation?

Response: Please see attached Exhibit, the Preservation Pipeline, demonstrating the need for funding of 78,000 plus units through September 30, 1995. HUD is presently paying out approximately \$23,000/unit to preserve these units, in post rehabilitated, post LIHPHA projects. These numbers assume a reduced cost to HUD of only \$18-20,000/unit. Under even the best of circumstances, a total of \$1.4 billion is needed to fund these projects through September 30, 1995. The total carryover is approximately \$1 billion. Hence, an additional \$400 million is required in appropriations for Fiscal Year '95.

3. Question: Can you preview any other cost savings measures or refinements to the preservation program from the Task Force work to date?

Response: The following legislative refinements and cost savings proposals have emerged from the Redesign Working Sessions:

**Alternative Proposals to Achieve
Cost Savings and Maintain the Economic
Mix of Prepayment Properties**

Several innovative program changes have emerged at the Redesign LIHPRHA working sessions. The proposals accomplish the original goals of the legislation, but alter the financing of the program. These recommendations include paying only that amount of subsidy necessary to pay the debt service on the 241(f) loan; providing Section 8 to those earning less than 50% of median, but a smaller rent subsidy, where necessary, to cover the rent subsidy needs of those earning between 50-80% of median; paying the equity and rehab through a capital grant (rather than financing the loans with Section 8); or providing exit tax relief to sellers.

With the exception of exit tax relief, the proposals focus on means to reduce the amount of project based Section 8 being used to finance the acquisition/equity take out and rehabilitation loan for the property. This will have at least two beneficial impacts: (1) reduce the appropriations necessary for LIHPRHA and, over time, the actual outlays to maintain the affordability of these units; and (2) maintain the economic mix of these properties. Additionally, under the debt service subsidy approach and the grant approach, certain residents' rents would stay the same or be reduced. To help assess these proposals, the Trust has proposed seven legislative criteria or "tests."

CRAVITZ BURKE DEBT SERVICE SUBSIDY

Current experience suggests that HUD's underwriting standards and budget scoring and increase in operating expenses leads to the budgeting of more Section 8 contract authority than is actually required to service the HUD insured 241(f) loan. Under the current program, HUD must set aside Section 8 for all units presently occupied by low and very low income households. Section 8 is "scored" with zero resident contribution. Both this proposal and Low Income Section 8 (see below) seek to reduce the program's budget needs by reducing the number of residents who receive Section 8 and substituting alternate means of funding the preservation of these projects.

This approach seeks to reduce costs by providing a renewable debt service subsidy for the debt service on the 241(f) loan. It reduces budget authority by reducing the number of households who will receive Section 8. On a sample 290 unit project, the authors estimated approximately 60% fewer units would require Section 8! These non-Section 8 residents would continue to pay their current budget based rent. Only residents currently paying more than 30% of their income for rent would receive Section 8. On the other hand, if operating costs rise dramatically, the residents, not HUD, would shoulder the burden of paying the increased cost.

One significant advantage to this approach is maintenance of the current rent structure and occupancy profile. That is, to the extent that residents are paying less than 30% of their income for rents in these developments, this proposal would provide that such rents would not be raised.

Would debt service subsidy reduce budget authority? This depends on how the proposal is "scored" in the federal budget process. If the debt service subsidy is scored on an annual or five year basis, there is a significant reduction of budget authority. According to the sample 290 unit scenario attached in Exhibit "B," there is a 33% reduction in budget authority, i.e. the five year budget authority necessary to finance the project is 33% less than the budget authority currently set aside to finance that same project.¹

As time passes, this approach leads to lower outlays, i.e., because the Section 8 preference rules do not apply upon turnover, it is less likely that the federal subsidy per unit will increase when vacancies are filled. The owner would be free to rent the apartment to anyone earning between 0-80% of median so long as the rent was not more than 30% of his/her income.

Also, if HUD pays the lender directly, this approach may eliminate the need for FHA mortgage insurance and the risk of claims on the insurance fund. However, some owners have indicated that direct payment to the lender by the debt service subsidy could lead to undesirable tax consequences. This needs to be studied in the near term.

Finally, what is the source of the debt service subsidy? If it is not Section 8, what is it? A new "rental allowance" is required for both this approach and

¹ The proposers of the Debt Service Subsidy proposal recognize that the reduction in Section 8 exposes them to potential problems in the future. Their solution: include an operating reserve account as an eligible cost in the 241(f) loan to provide a cushion against such rent increases. Is HUD likely to favorably consider this? Does reduction in budget authority justify increasing operating reserves? If so, by how much?

Low Income Section 8. If the source is Section 8, then the legislation must make clear that this subsidy is exempt from the federal preference rules.

Using the above criteria, the proposal actually could achieve significant budget authority and outlays. The proposal actually benefits current residents and will help maintain economic mix of these properties. Further, because it eliminates the need for rent phase ins for many of the units, it will make the program easier to administer. However, it is not clear how HUD would predict budget authority need using this approach. Savings will vary depending on rent burdens nationwide. It is still unclear whether the proposal has the support of the major stakeholders.

Unlike the capital grant or exit tax proposal discussed below this proposal does not require any short term increase in appropriations nor legislative action by Ways and Means, Senate Finance or the Joint Tax. It will, however, require substantive amendments to LIHPRHA.

SHALLOW RENTAL SUBSIDY FOR LOW INCOME RESIDENTS

The "Shallow Rental Subsidy" proposal requires that when underwriting for the acquisition/rehab and/or equity take out loan is conducted, a rent contribution from low income households equal to 30% of 50% of area median income would be recognized as part of the rent stream. This proposal would eliminate the current requirement that upon turnover, the Section 8 preference rules apply to all units occupied by a very low or low income family. Unlike the debt service subsidy approach, it affects only low income units; very low income and moderate/market rate apartments are treated the same as under current LIHPRHA. To the extent 30% of their incomes are less than fair market rent, the stay-in owner/purchaser would receive a shallow subsidy to make up the difference, rather than Section 8.

In practice, the owner would maintain two waiting lists, one for apartments reserved for very low income residents (Section 8 Preference Rules apply) and one for apartments reserved for low income families (Section 8 Preference Rules do not apply). Because it has a minimum resident contribution, Shallow Rental Subsidy requires significantly less budget authority than the current program, perhaps as much as 50-60% less budget authority! In those markets where the Preservation Rent exceeds the Section 8 Existing Fair Market Rent, it may be necessary to cap the resident's share at 90% of the Section 8 Existing FMR.

Shallow Rental Subsidy also results in lower funding outlays because, upon turnover, the owner can rent the unit to anyone earning between 50-80% of median. Indeed, the only significant difference in determining actual outlays between Debt Service Subsidy and Shallow Rental Subsidy is the following:

Shallow Rental Subsidy requires increases in rent to 30% of income for all low income residents paying less than that amount. The Debt Service Subsidy approach does not. Under the debt service subsidy model, residents paying less than 30% of their adjusted income for rent continue to pay their present rent, with HUD paying the rent difference.

Shallow Rental Subsidy is no more complex than the current program. Under LIHPRHA, the owner is required to maintain the resident income mix in place after the sale or refinance. Instead of requesting Section 8 for all units occupied by very low and low income households, the owner/purchaser requests Section 8 for units occupied by very low income households and "Shallow Rental Subsidy" for those units occupied by low income households.

Today, 30% of 50% of income is a proxy for Fair Market Rents in many areas. Upon turnover, however, will the owner be able to market units currently occupied by low income residents at 30% of 50% of median income? Or will discounts have to be made to market those units? Also, as with the Debt Service Subsidy approach, what is the source of the shallow subsidy for low income households?

Shallow Rent Subsidy, unlike regular Section 8, doesn't provide a corresponding rent decrease if the family's income decreases. That is, the minimum rent a family would pay would be 30% of 50% of income, regardless of the fact that the family may, in the future, have a wage decrease and have an income less than 50% of median. Should that family be entitled to the next available project based Section 8 unit?

Like the Debt Service Subsidy, Shallow Rent Subsidy passes all the legislative tests. It is still unclear whether the proposal has the support of the major stakeholders. Unlike the capital grant or exit tax proposal discussed below this proposal does not require any short term increase in appropriations nor legislative action by Ways and Means, Senate Finance or the Joint Tax. It will, however, require substantive amendments to LIHPRHA.

EXIT TAX RELIEF

This proposal assumes that tax consequences continue to be the primary concern of the limited partners who own this real estate. There are a variety of ways exit tax relief could be implemented: one could permit the non-cash gain upon transfer or sale to be nontaxable if the transfer is for \$1 plus the outstanding mortgage balance to an entity committed to preserving the property as defined by LIHPRHA to be affordable for the remaining useful life of the units; or one could target such relief only for transfers to priority purchasers. Significant cost savings to HUD can be achieved by such a waiver. The owner would agree to a reduction in Transfer Preservation Value in exchange for such relief.

The California Housing Partnership Corporation has produced a variant on this idea which would limit such relief only for projects sold to "preferred" priority purchasers, i.e., residents or resident-endorsed Community-Based Nonprofit Organizations). To encourage the owner to participate, the authors propose a "Sale Incentive Factor" to induce a reasonable amount of such sales.

According to the working session participants, the chief problem with this approach appears to be political, i.e., the necessity of persuading OMB, Treasury and relevant congressional committees (Ways & Means, Senate Finance and Joint Tax) that the non-recognition of gain upon sale or transfer of these properties should not be scored since budget projections do not score anticipated revenues from the sales of prepayment eligible developments. It is still unclear whether the proposal has the support of the major stakeholders.

CAPITAL GRANT

This proposal would substitute a direct capital grant for the insured second mortgage financing for equity take out, acquisition and rehabilitation. It would eliminate the long term Section 8 obligation currently used to finance the 241(f) loan necessary for acquisition and rehabilitation of these properties.

This proposal would maintain the current rent schedule, i.e., residents paying more than 30% of their incomes would not receive rent decreases; residents paying less than 30% of their income would not pay rent increases. A variation on this theme would include income based rents and Section 8 subsidies for very low income residents or residents paying more than 30% of their income for rent, but maintain current rents for others (typically low or moderate income tenants). Open questions are how this proposal would affect future tenants and how the program would be administered.

This approach would simplify the program administratively as well as dramatically reduce long term costs by eliminating the repayment of the 241(f)

loan over a 40 year term. Also, it would maintain the economic mix of the projects. Finally, by preventing rent increases to those currently paying less than 30% of their income for rent, it would serve as an anti-displacement measure.

However, unless the rules of the budget scoring process are changed, this approach may not save budget authority short term since the capital grant must be scored in its entirety for the year in which it is made. However, what would be the impact of using what is already appropriated, e.g., \$1 billion through FY '95, to fund the purchase and rehab of units which require funding through FY '95, i.e., prior to September 30, 1995? The Trust has asked the data group to explain how many units could be preserved with this approach using existing appropriations through fiscal year 1995.

PRESERVATION PIPELINE

TITLE VI PROJECTS WITH NOTICES FILED &
TITLE II PROJECTS WITH PLANS OF ACTION PENDING:

	Before Jul-82		Jul-82 To Dec-82		Jan-83 To Jun-83		Jul-83 To Dec-83		Projects w/ No Data		TOTALS	
	Projects	Units	Projects	Units	Projects	Units	Projects	Units	Projects	Units	Projects	Units
Summary:												
Title VI Extensions	66	6,748	211	20,428	324	33,671	433	46,607	437	47,124	437	47,124
Title VI Sales	35	3,278	106	9,699	182	17,693	241	22,549	241	22,549	241	22,549
Transition Rule:												
Req. Title VI Appraisal	30	3,096	30	3,096	30	3,096	30	3,096	30	3,096	30	3,096
Title VI Totals	131	13,122	347	33,223	536	54,460	704	72,252	708	72,769	708	72,769
Title II	29	4,966	66	6,380	76	10,519	93	12,126	130	18,163	130	18,163
Title VI & II Totals:	160	18,088	413	41,603	612	64,979	797	84,378	838	90,932	838	90,932

TOTAL PRESERVATION BUDGETARY NEEDS- FY94 AND FY95:

NOTE: Amounts shaded above are included in totals below

	Total Units	COST RANGE	
		@ \$18,000 Per Unit	@ \$20,000 Per Unit
Title VI Extensions: 1/	47,124	\$842,232,000	\$942,480,000
Title VI Sales: 2/	9,699	\$174,582,000	\$193,980,000
Transition Rule:			
Req. Title VI Appraisal:	3,096	\$55,728,000	\$61,920,000
Title II POA: 3/	18,163	\$326,934,000	\$363,260,000
Totals:	78,082	\$1,405,476,000	\$1,561,640,000

PRESERVATION PIPELINE

1/ Title VI projects in which owners filed extension notices should be budgeted for funding within 22 months of the Notice. We assume that HUD provides information on valuation and available incentives within 9 months; the owner submits the Plan of Action 1 month later; the owner's Plan of Action must be approved within six months of submission. HUD must provide the assistance within 15 months of the approval of the Plan of Action - 24 CFR Sections 248.131 (b), 248.148(b), and 249.169(a)(2)(i). We assumed that HUD would not take the full 15 months, but 6 months.

2/ We assume that Title VI projects in which owners intend to sell should be budgeted for funding within 33 months of the initial notice. The basic time differential between projects in which owners wish to extend and projects in which owners want to sell is the marketing period required for sales. Here, we assume a 12 month marketing period and therefore exclude from our budgetary need calculations any Title VI Sale Notice which was filed after July 1, 1993 because it is not likely to need funding prior to October 1, 1995 (end of fiscal year '95).

3/ The FHA Commissioner is required to notify the owner in writing within 180 days of approval or disapproval of a filed Title II Plan of Action. 24 CFR Section 218(e). Therefore all Title II Plans of Action currently filed need to be prospectively budgeted.



NHC

The United Voice for Housing

**Reauthorization of Federal Housing Programs
and
Department of Housing and Urban Development
1993 Legislative Program**

**Testimony of
John K. McIlwain
President
NATIONAL HOUSING CONFERENCE**

**Before the
U.S. House of Representatives
Subcommittee on Housing and Community Development
Committee on Banking, Finance and Urban Affairs**

May 5, 1994

Mr. Chairman, my name is John McIlwain and as President of the National Housing Conference, I would like to thank you for giving me the opportunity to present testimony concerning pending reauthorization of federal housing and community development programs. It goes without saying that NHC has long appreciated and admired your efforts on behalf of the housing needs of the American people.

As you know, Mr. Chairman, NHC is the nation's oldest nonprofit bipartisan organization working toward the provision of decent housing and a suitable living environment for every American. Since its inception in 1931, NHC has carried out its mission by mobilizing private and public resources to help facilitate the development of national housing policy.

The organizations and individuals that belong to NHC include housing and social service providers from the non-profit and for-profit communities, state and local officials, tenant advocates, builders, lenders, labor leaders, architects and planners and religious leaders. Indeed, many of the witnesses submitting testimony to your subcommittee as part of your series of hearings on the reauthorization process are active members of NHC or are affiliated with NHC organizational members.

The focus of our testimony this morning will be the looming crisis in developing sound national policy to preserve the nearly one million units of affordable housing built or substantially rehabilitated pursuant to the Section 8 program during the 1970's and 1980's. Since last fall, NHC, at the initial invitation of the Department of Housing and Urban Development, has convened forums in Washington and around the country, developed papers and prepared draft legislation that we feel represents a consensus on this critical issue among housing providers, state finance agencies, property managers, and most important, tenants and tenant advocates.

However, before turning to a discussion of Section 8, I would like to take a few moments to address some other key issues before us this spring.

Mr. Chairman, both H.R. 3838, your bill, and H.R. 4310, the Administration's bill, contain many significant provisions that deserve serious time that is beyond the limited amount available to us this morning. Of course, NHC would be happy to provide you with our assessment of other aspects of the legislation not being addressed at today's hearing -- as we would be happy to elaborate on any of the points addressed in our testimony this morning. Certain threshold points need to be made, however.

As a general proposition, the National Housing Conference strongly supports the extraordinary work that HUD Secretary Henry G. Cisneros and his truly outstanding team have accomplished in bringing vigor to that agency. We also agree that the Secretary's priorities of reducing homelessness, rebuilding and revitalizing public housing, expanding affordable housing, and enforcing fair housing are of undisputed importance. The attention paid to these priorities by the Secretary are appropriate and much needed.

At the same time, NHC, as a leading member of the 100-plus member Campaign for Housing and Community Development Funding, must call the subcommittee's attention to the budgetary context in which your hearings are held. For example, between 1980 and 1992, HUD was the only

major federal agency whose budget declined in real terms. The problems of the declining quality of public housing, the long waiting lines for affordable housing, the many homeless without decent shelter, among others, have in large part resulted from the decline in funds available to the Department of Housing and Urban Development to meet pressing needs.

Both Congress and the Executive Branch have an obligation to redress the damage done by those budget cuts, a proposition that NHC is confident this subcommittee, with its outstanding record on behalf of affordable housing programs and its constituencies, can support without hesitation.

In that light, the infrastructure of housing and community development programs -- such as public housing development, modernization and operating subsidies, community development block grants, home investment partnerships, Section 8, housing for the elderly and the disabled, and the like -- cannot be allowed to weaken further. In that regard, proposals to reduce spending in Section 202, or in public housing, or to fund new initiatives such as LIFT out of the annual contributions account, are of grave concern to our members.

At the same time, we strongly agree with the Secretary that the Federal Housing Administration should be put "back in business." We agree that FHA should have greater flexibility in providing new mortgage insurance products, in order for the agency to regain its historically critical role in providing housing finance. We also agree that FHA should be encouraged to expand its efforts to develop partnerships with state housing finance agencies and government sponsored housing enterprises -- and we urge that FHA expand this activity to other members of the financial community, including but not limited to the nation's strongest commercial, mortgage and investment bankers. By the way, this is not a new position for NHC; we have long felt that one of the best ways to get FHA back into the business of financing affordable multifamily housing would be to authorize and strongly encourage creative risk-sharing arrangements with the largest feasible range of partners.

Title V of H.R. 4310 proposes several amendments to the Low Income Housing Preservation and Resident Homeownership Act of 1990 ("LIHPRHA"). We have not had the opportunity to study these proposals closely, but on initial glance, they appear to potentially undermine the delicate compromise that was developed among tenants, owners, Congress and the Administration then in office to preserve several thousand multifamily housing projects built during the 1960's and 1970's with mortgages insured or assisted by the government under Section 221(d)(3) or Section 236 of the National Housing Act. LIHPRHA was not fashioned in haste or lightly; the current Chief of Staff at HUD was Counsel to the Senate Subcommittee on Housing and Urban Affairs when LIHPRHA was enacted, and in that capacity was instrumental in crafting the legislation. Similarly, Mr. Chairman, you, your staff, and your colleagues on this subcommittee and their staffs were heavily involved in the development of the legislation. In light of ongoing concerns about the potential costs of LIHPRHA, HUD has authorized the National Housing Trust to embark on a detailed assessment of the program, involving a wide range of housing providers, tenant advocates and other experts, including NHC. We would find it passing strange, therefore, if Congress were to adopt any of the Administration's proposed reforms to LIHPRHA without learning of the recommendations that will emanate from this process -- recommendations that will not likely be ready until this Fall. We are very much concerned that enactment of the Administration's recommendations in this area would be, at the very least, highly premature.

Similarly, HUD invited the National Housing Conference to convene a series of working sessions on project-based Section 8. NHC Task Force participants have included officials from state and local government, representatives of community activist organizations, tenants, and private sector housing providers from both the nonprofit and for-profit sectors. Officials from HUD and other federal agencies offered their technical expertise. Meetings were held between November 18, 1993 and April 21, 1994 in Washington, Boston, Chicago, New York and San Francisco. One product of these meetings is proposed legislation that we are submitting for the record this morning. Very much a work in progress, our legislative proposal is an effort to reflect the consensus that emerged among several key issues. And among the diverse organizations and individuals that participated, **consensus did emerge that action should be taken as soon as possible**. For the record, we would also like to provide the subcommittee with a list of the individuals and organizations that have participated in NHC's effort.

Unlike LIHPRHA, we feel that much of the research and analytical work in the area of Section 8 has largely been completed, so the issue is ripe for inclusion in comprehensive housing legislation during this session of Congress. Moreover, the potential loss of significant numbers of units of largely well-constructed affordable housing, serving millions of poor Americans, requires expeditious action.

To underscore the importance of the problem, certain basic facts should be underscored. At the time of the 1990 Census, there were 32 million renter households in the United States. Of that number, 14 million either paid more than half of their monthly income in rent or lived in overcrowded conditions -- 88% of whom had household incomes at or below 80% of median; 67% of whom had household incomes at or below 50% of median.

Mr. Chairman, as you know, in enacting the Housing and Community Development Act of 1974, Congress created a program designed to provide housing for low and very low income Americans that combined both an assurance of the availability of financing and funds to defray the cost of debt service and support operations, with rent levels affordable to residents. Previously enacted programs aimed at developing privately-owned housing for the poor provided for low interest financing, but the effects of inflation resulted in insufficient revenues for a considerable number of properties to remain viable. In the face of the criticisms of the prior programs, Congress inserted a new **Section 8** into the United States Housing Act of 1937 when it passed the omnibus 1974 housing and community development legislation.

Under Section 8, two distinct types of rental assistance were to be provided: (i) tenant-based assistance, today further split into rental certificates and vouchers; and (ii) project-based assistance. Under present law, under project-based assistance and the rental certificate programs, tenants are required to pay no more than 30% of their monthly income as rent, with the federal government obligated to pay to the owner the difference.

Section 8 tenant-based assistance, whether certificates under Section 8(b) or vouchers under Section 8(o), acts as an income-support program, like welfare or food stamps. By contrast, Section 8 project-based assistance was designed initially as an affordable housing **production** program, necessary in light of the insufficient supply of adequate housing for low income families. Private

investors were attracted to Section 8 in part by the favorable tax treatment given investments in low income housing, which enabled them to offset income earned from other sources.

During our forums, we learned that the universe of Section 8 project-based properties developed under the new construction and substantial rehabilitation programs of the 1970's and 1980's totals 940,185 units. Residents are poor individuals or poor families; a significant percentage are elderly. One recent study, prepared by Abt Associates for HUD's Office of Policy Development and Research, indicated that 71% of the Section 8 new construction and substantial rehabilitation units were occupied by one or two person households and that 47% were inhabited by the elderly. There is anecdotal evidence that the majority of non-elderly families residing in Section 8 project-based developments are single mothers with dependent children.

A substantial percentage of this housing was financed with 40-year mortgages, insured by the Federal Housing Administration, frequently under the 221(d)(4) program, coupled with Section 8 contracts requiring the federal government to pay the difference between tenant rental contributions and fair market rents. For 373,793 units, or 4,983 contracts, the Section 8 contracts were for a period of only 20 years, and these contracts will soon expire. To protect the families that live in this housing and to preserve this precious supply of affordable housing stock, legislation must be drafted this year by Congress to authorize the Secretary to enter into new housing assistance contracts under terms that are fair and equitable, and sufficient budget authority must be provided by the appropriations process to provide the needed subsidies.

According to HUD data, a significant percentage of the properties would likely have revenue shortfalls and not be viable without ongoing governmental assistance to defray debt service and/or operating costs. Also, a concern has arisen that some owners of viable projects may determine that they do not want to renew their Section 8 contracts; leaving some owners with the alternative options of operating lower-quality housing or not operating housing altogether.

Data indicates that the first significant number of Section 8 project-based subsidy contracts expire beginning in 1996, with half of the FHA-insured portfolio of new construction and substantial rehabilitation projects facing expiring contracts between the years 2000 and 2004.

Mr. Chairman, please note that owners are required to provide tenants with notice of lease termination one year in advance under present law; accordingly, some tenants will begin receiving such notices in 10 months or less unless action is taken by Congress this year.

NHC believes that the inventory of project-based units comprise a unique national resource, developed and maintained at great expense. There is no foreseeable likelihood of the replacement of the inventory if it is lost due to inaction. Furthermore, as was made clear to us at NHC's public forums, providing Section 8 rental certificates to the tenants of Section 8 new construction or rehabilitated developments would be an almost certainly inadequate response by itself. Tenant-based assistance as the sole remedy would in all likelihood result in the failure of significant numbers of families to find safe, decent and affordable housing -- and forced relocations to different, unfamiliar and poorer neighborhoods.

NHC believes legislation to protect project-based Section 8 housing, and the people who live there, should have the following features:

1) The legislation should include an express set of findings about the importance of the housing stock built or substantially rehabilitated under the program and about the continuing need to provide affordable housing for millions of ill-housed Americans.

2) The legislation should impose a requirement that, well in advance of the termination of present housing assistance contracts, existing owners of Section 8 housing would notify the Secretary, project tenants, appropriate state or local officials and other appropriate officials of his or her interest in entering into a new subsidy contract, and also establish a process by which the owner would propose contract terms for the new contract.

3) The legislation should include a detailed process by which the Secretary can either accept or reject the owner's proposal, or enter into negotiations to develop new contract terms. In addition, in those limited cases where either the owner chooses not to enter into a new subsidy contract, or the Secretary does not want to enter into a new contract with the existing owner, there should be a process by which other parties could provide affordable housing with the project-based assistance, either at the same property or at another property in the same community. Tenants should not lose their housing merely because a housing assistance contract expires and the owner chooses not to renew on reasonable terms -- nor should units receiving project-based assistance be lost to the national inventory for that reason alone. Other potential owners could be tenants, acting as a cooperative or in any other appropriate capacity, units of government, non-profit organizations including but not limited to community housing development organizations, or other housing providers, including for-profit providers. Technical assistance and other appropriate forms of assistance, in addition to rental subsidies, should be available.

4) Because the project-based Section 8 inventory covers a wide range of property characteristics, resident profiles, financing vehicles, and is subject to a wide variety of local market considerations, NHC believes that Congress should provide for a variety of available methodologies to develop rent levels for new subsidy contracts, whether with the current owners, or with new providers of assistance. NHC proposes three in its draft legislation, including a "status quo methodology" which would continue current rent levels as the initial rent levels under a new contract if they are less than or equal to the 65th percentile of rents paid by recent movers in the nearest metropolitan market area for which Fair Market Rents are determined -- with annual adjustments in a manner to be specified by law. NHC also proposes alternative methodologies employing surveys of comparable rents in the community, and a budget-based method involving the submission of the actual costs incurred through debt service, operating expenses, provision for reserves, anticipated operating losses due to vacancies and failure to collect rent in certain circumstances, and a modest return to property owners.

5) The legislation should encourage the Secretary to seek cost savings through refinancing of underlying debt in appropriate circumstances. We support the goal underlying the Administration's legislative proposal of providing incentives to owners to refinance high-interest rate mortgages used to finance Section 8 new construction, substantial rehabilitation and moderate rehabilitation projects.

- 6) The legislation should detail a process of resident involvement in the determination of the future of the property where they reside.
- 7) In order to provide further cost savings, HUD should encourage new forms of government-owner partnerships.

In addition to the issues addressed in NHC's proposed legislation, there was Task Force consensus that tax-related issues deserve expeditious analysis. The vast majority of the Section 8 project-based developments are owned by limited partnerships whose limited partners provided the capital and whose general partners provided substantial real estate development and management expertise. The real estate taxation reforms included in the Internal Revenue Code of 1986 eliminated the deduction of passive losses from housing investment against other income. As a result, there largely remains no tax-based incentive for limited partners to invest in property improvements. General partners, by contrast, particularly those with property management capabilities, are interested in the Section 8 properties to maintain the breadth and scope of their portfolios.

Although generally in better physical condition than other assisted housing, properties developed under the Section 8 new construction and substantial rehabilitation programs are nonetheless aging and capital expenditures will increasingly be required.

Under present law, upon sale of a Section 8 property, taxable gain is recognized not only on any cash actually received but on funds attributed to the negative capital account. Limited partner investors, who may have up to 99% of the tax benefits of the original investment, and a comparable degree of tax liability on sale, generally have no reason to sell; a limited partner's best option may be to defer selling until there is an increase in the value of the property over time -- or, indeed, until death. General partners are bound by a fiduciary obligation to limited partners, and are for the most part not in a position to sell properties without their consent. Furthermore, under current tax rules, limited partners often find themselves as obstacles to actions that may be taken by general partners to make capital improvements in properties.

NHC feels that some action should be taken to reduce the tax burden associated with selling the property in order to encourage limited partners to "exit" their investments. Such an "exit" could include transfers of ownership to existing general partners or to a third party who would agree to maintain the property as low income housing.

In addition, consideration should be given to reinstatement of Section 1039 of the Internal Revenue Code, broadened to expressly include the Section 8 portfolio and with such other revisions as may be needed, to allow transfer of low income property to a low income-oriented cooperative or other owner that would maintain the project for low income use.

With regard to the residents of Section 8 housing, we should recognize that the program serves essentially two distinct populations: residents with the capacity of achieving gainful employment, and who, over a period of time, would be ready, willing and fully capable of paying market rates for housing, without governmental assistance; and elderly or handicapped individuals, and some families, for whom there is no reasonable expectation that they will ever be able to support their own housing costs without at least some governmental subsidy. Put another way, the two

groups are (1) tenants for whom Section 8 housing should be viewed as temporary; and (2) tenants for whom Section 8 housing should, for the purposes of analysis, be viewed as permanent.

Elderly individuals living in a Section 8 development are likely to live their remaining days there (or until they may need to move to a nursing home or similar facility). The family population is more problematic. Families headed by at least one healthy adult should be viewed as having the potential to improve their personal economic situation, and become able to live in market rate housing at some point in time. Of course, job training, education and counseling will be required. Clearly these residents have established roots in their communities, making many reluctant to move. On the other hand, if residents receive adequate incentives, they might vacate their units, allowing a succession of families to benefit from Section 8.

In that light, NHC strongly recommends that a link to supportive services should be provided for Section 8 residents, tailored to reflect their particular needs.

For residents living in Section 8 permanently, supportive services would be targeted toward meeting their current life needs. With regard to residents for whom Section 8 would be temporary, supportive services should be directed toward helping them "move up and out."

Owners should be expected to designate a full-time or part-time service coordinator with the responsibility of assisting residents and in linking residents with service providers in their community. (The salary and other costs associated with employing a service coordinator would be an eligible expense funded under the HAP contract.) Resident organizations may have, among their other responsibilities, the responsibility of helping to monitor or participate in designing the service program.

The detailed work that has led to NHC's proposal continues, and we hope to work with you and your colleagues on this important matter. A number of details require refinement and we are continuing to collect data and comments from experts and advocates from across the spectrum. We look forward to share the results of our continued work with you in the weeks to come.

By contrast with the extensive work that has led us to the inexorable conclusion that action should be taken this year on project-based Section 8, we find some of the Administration's project-based Section 8 proposals, found in Title VIII of H.R. 4310, overly budget-driven and not at all based on sound housing policy. It is simplistic to suggest that any rent increases based on annual adjustment factors should be denied when the contract rent is more than the Section 8 fair market rent, on the theory, presumably, that fair market rents should be adequate to cover the costs associated with providing housing in projects built or rehabilitated under Section 8. If anything, fair market rents, as calculated under present law, are too low and the fair market rent formula may be fatally flawed. Similarly, reducing annual adjustment factors for any unit occupied by the same family at the time of the last contract rent adjustment does not appear based on housing policy, but fashioned to reduce federal expenditures in such a way so as to hinder the ability to provide safe, decent and sanitary affordable housing.

Finally, the Department's plan to reduce Fair Market Rents to the 40th percentile of gross rents paid by recent movers, which apparently may not require affirmative legislation, would seriously

undermine the ability of low income families to secure affordable housing and seriously undermine the ability of housing providers to make such housing available. We urge Congress to legislatively prevent the Department from implementing such a change.

With Section 8 subsidy contracts expiring, and Congress faced with the challenge of authorizing and appropriating the funds needed to preserve the nation's supply of affordable housing, these issues and others will have to be confronted. In facing them, Congress will be asking whether Section 8, on balance, can be judged worthy of continued support.

The success of an affordable housing program is not based on who delivers the housing -- it is largely irrelevant whether the housing is developed directly by agencies of government, as in public housing, or whether non-profit, for-profit, community-based or non-community-based intermediaries are involved in the process. The true tests are the quality and quantity of housing provided, whether the program serves the needs of the individuals or families that Congress intended to serve, the quality of life for the residents and their communities -- and whether the program achieves its objectives in a cost-effective manner. This is as true for Section 8 as for anything else.

On this basis, Section 8 housing must fairly be judged an overwhelming success, despite some of its inevitable failures. While we encourage HUD to use the full extent of its broad enforcement authority to correct these failures, we also encourage Congress to act promptly to preserve this invaluable national resource.

NHC Section 8 Task Force

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NHC Section 8 Task Force

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Robert S.	Salomon III	Pepper, Hamilton & Scheetz
Stephen	Salup	Starrett Housing Corporation
Sheldon L.	Schreiberg	Pepper, Hamilton & Scheetz
James H.	Schuyler	The Schuyler Company
Martin C.	Schwartzberg	National Foundation for Affordable Housing Solutions
Thomas R.	Shuler	Insignia Management Group
Marvin	Siflinger	Massachusetts Housing Finance Agency
Rikki	Spears	National Low Income Housing Coalition
Jeffrey R.	Stern	SCA Realty, Inc.
William S.	Stetson	Beacon Management Company
John K.	Stewart	The John Stewart Company
Barbara	Tillman	Grenadier Realty Corp.
Nancy	Trick	National Foundation for Affordable Housing Strategies
Chris	Tuffli	Bogle and Gates
Albert A.	Walsh	Seward & Kissel
Walter D.	Webdale	Fairfax County Department of Housing & Community Development
Charles V.	Welden, Jr.	Welden and Harbin
Alan H.	Wiener	American Property Financing, Inc.
Charles S.	Wilkins, Jr.	NHP, Inc.

MAY 5, 1994 DRAFT #2**A BILL**

To address the need for decent, affordable housing by preserving housing constructed or substantially rehabilitated under Section 8 of the United States Housing Act of 1937 for low income use, providing new contracts for assistance to sustain such housing, replacing needed assisted housing resources lost through contract expirations, and for other purposes.

Be it enacted by the Senate and the House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE AND TABLE OF CONTENTS.

(a) SHORT TITLE -- This Act may be cited as the "Assisted Housing Preservation Act of 1994".

(b) TABLE OF CONTENTS --

Sec. 1. Short title and table of contents.
 Sec. 2. Effective Date.

TITLE I--FINDINGS AND PURPOSE

Sec. 101. Findings.
 Sec. 102. Purpose.

**TITLE II--PROCEDURES FOR ENTERING INTO
NEW HOUSING ASSISTANCE CONTRACTS**

Sec. 201. Authority for Entering Into New Housing Assistance Contracts.
 Sec. 202. Criteria for Entering Into New Contracts.
 Sec. 203. Notice and Filing by Owner; Required Response by the Secretary.
 Sec. 204. Plan to Preserve Project-Based Units Under Certain Circumstances.
 Sec. 205. Setting Rent Levels in New Housing Assistance Contracts.
 Sec. 206. Delegation of Authority.

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TITLE III--REFINANCING OF UNDERLYING DEBT

- Sec. 301. Refinancing of Underlying Debt - General Rule.
 Sec. 302. Circumstances Where General Rule Shall Not Apply.
 Sec. 303. Recapture of Savings.
 Sec. 304. Limitation on Powers of the Secretary under this Title.

TITLE IV--RETENTION OF PROGRAM SAVINGS BY THE SECRETARY

- Sec. 401. Retention of Program Savings by the Secretary.
 Sec. 402. Residual Receipts.

TITLE V--SUPPORTIVE SERVICES

- Sec. 501. Provision of Service Coordinator.
 Sec. 502. Payment of Costs Associated With Service Coordinator.

TITLE VI--DEFINITIONS; AUTHORIZATION OF APPROPRIATIONS

- Sec. 601. Definitions.
 Sec. 602. Authorization of Appropriations.

SECTION 2. EFFECTIVE DATE.

The provisions of this Act shall take effect and shall apply upon the date of enactment of this Act, unless such provisions specifically provide for effectiveness or applicability upon another date.

TITLE I--FINDINGS AND PURPOSE**SECTION 101. FINDINGS.**

The Congress finds that --

(a) Housing built or substantially rehabilitated pursuant to Section 8 of the United States Housing Act of 1937 is an important national resource that has provided decent, safe and affordable housing to hundreds of thousands of low income families who otherwise would not have obtained it;

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(b) The Federal Government is the steward of this assisted housing stock and has an affirmative obligation to preserve it as housing for low income families, consistent with considerations of fairness to all interested parties, including owners, residents, property managers, the community in which the housing is located, and the taxpayer;

(c) Because Section 8(e)(1) of the United States Housing Act of 1937 (as in effect prior to November 30, 1983) provided, for the most part, that contracts to make assistance payments to owners of newly constructed or substantially rehabilitated housing financed with assistance of a loan made by, or insured, guaranteed or intended for purchase by the Federal Government, other than pursuant to Section 244 of the National Housing Act, could not exceed 20 years and because such housing was constructed or substantially rehabilitated during the mid to late 1970's and early to mid 1980's, a substantial number of contracts that provide for such assistance will soon expire (with other housing constructed or substantially rehabilitated pursuant to such section of law supported through housing assistance contracts of longer duration, which will expire at a later time);

(d) Failure to enter into new housing assistance contracts under equitable and financially sound terms and conditions will reduce the supply of decent, safe and affordable housing for low income Americans, while the demonstrated need for such housing remains great;

(e) In order for the nation's urban and rural population centers to regain their viability, national policy must be directed toward preserving the housing stock in such population centers, which includes the preservation of housing built or substantially rehabilitated under Section 8 of the United States Housing Act of 1937;

(f) Assisted housing projects located in areas of relative affluence can promote racial, social and economic integration, and such projects should be maintained as part of the affordable housing inventory to the maximum extent practicable;

(g) The number of units of housing currently receiving project-based Section 8 assistance should not be reduced as a result of the expiration of any current contracts; and

(h) The number of households currently being served as a result of their living in housing receiving project-based Section 8 assistance should not be reduced as a result of the expiration of any current contracts to provide project-based assistance, with the understanding that some of the specific families currently living in such housing may either receive such assistance in another location or become recipients of tenant-based assistance under appropriate circumstances (with the preference,

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as a matter of public policy, to the continued assistance of such households through project-based assistance).

SECTION 102. PURPOSE.

It is the purpose of this Act to provide for the preservation of affordable housing constructed or substantially rehabilitated pursuant to Section 8 of the United States Housing Act of 1937, and to provide affordable housing opportunities for at least the same number of families as are provided such housing by virtue of their residing in project-based Section 8 housing, in a manner that is administratively efficient, cost-effective, and fair to all interested parties, including owners, residents, property managers and the communities in which the housing is located.

**TITLE II--PROCEDURES FOR ENTERING INTO
NEW HOUSING ASSISTANCE CONTRACTS****SECTION 201. AUTHORITY FOR ENTERING INTO NEW HOUSING ASSISTANCE CONTRACTS.**

Section 8 of the United States Housing Act of 1937 (42 U.S.C. 1437f) is amended by adding at the end thereof the following new subsection:

"() EXECUTION OF NEW CONTRACTS--To the extent that budget authority appropriated to carry out this subsection is available, the Secretary shall enter into contracts to make assistance payments for qualified housing assisted under an expiring contract to present or future owners of such housing that have entered into agreements with the Secretary pursuant to the provisions of the Affordable Housing Preservation Act of 1994. Each contract under this subsection to make assistance payments for qualified housing shall provide that, during the term of the contract, the owner shall make available for occupancy only by families that (at the time of their initial occupancy) are low-income families or very low-income families (as the contract shall provide) the number of units for which assistance is provided under the expiring contract."

SECTION 202. CRITERIA FOR ENTERING INTO NEW CONTRACTS.

(a) ESTABLISHMENT OF CRITERIA--Within forty-five days of the date of enactment of this Act, the Secretary shall publish for comment a proposed set of criteria pursuant to which the Secretary may assess whether the owner of a housing project which has received project-based

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assistance pursuant to expiring housing assistance contracts shall be offered a new contract pursuant to this Act. Such set of criteria shall become final in such manner as is generally required for the promulgation of regulations by the Secretary.

(b) LIST OF CRITERIA--The criteria shall be the same as those for which the Secretary may impose sanctions such as suspension, debarment, civil money penalties and such other major forms of enforcement action as are available under law.

SECTION 203. NOTICE AND FILING BY OWNER; REQUIRED RESPONSE BY THE SECRETARY.

(a) SECRETARY'S NOTICE TO OWNER--Not later than the later of six months after the date of enactment of this Act, or 2 years and three months prior to the final expiration of a housing assistance contract then in force (or expiration of the last optional extension of a housing assistance contract then in force), the Secretary shall notify an owner of housing constructed or substantially rehabilitated pursuant to Section 8 of the United States Housing Act of 1937 that the owner has an affirmative obligation pursuant to subsection (b).

(b) OWNER'S REQUIRED NOTIFICATION TWO YEARS PRIOR TO CONTRACT EXPIRATION--Whether or not the Secretary has acted in a timely manner pursuant to subsection (a), not later than the later of nine months after the date of enactment of this Act, or 2 years prior to the expiration of a housing assistance contract, an owner of housing constructed or substantially rehabilitated pursuant to Section 8 of the Housing Act of 1937 shall file with the Secretary a notice as to whether or not such owner intends to enter into a new housing assistance contract pursuant to this Act. The owner, upon filing a notice under this section, shall simultaneously submit a copy of such notice to the chief executive officer of the appropriate State or local government for the jurisdiction within which the housing is located and with the mortgagee, to the residents of such housing, and to such other individuals or entities as may be determined by the Secretary.

(c) FORMAL SUBMISSION OF DETAILED PROPOSAL TO ENTER INTO NEW HOUSING ASSISTANCE CONTRACT--If, in the notice required by subsection (b), the owner indicates a preference to enter into a new housing assistance contract, the owner shall, within three months thereafter, submit to the Secretary a set of proposed terms and conditions for the new contract, *provided, however*, that the basic contract term shall be for not less than five years. Such contracts shall be renewed for additional terms of five years without limitation, except when enforcement action authorized to be exercised by the Secretary under applicable law provides for termination or modification or such other result, and except in such cases when appropriations are unavailable for any such contract renewal.

1 and *provided further*, that the owner shall propose a method for calculating rent consistent with one
2 of the methods set forth in Section 205 of this Act. The owner, upon making a filing under this
3 subsection, shall simultaneously submit a copy of such filing to the chief executive officer of the
4 appropriate State or local government for the jurisdiction within which the housing is located and with
5 the mortgagee, to the residents of such housing, and to such other individuals or entities as may be
6 determined by the Secretary.

7
8 (d) RESPONSE BY THE SECRETARY TO OWNER'S PROPOSAL --

9
10 (1) TIME FOR RESPONSE--Within ninety days of the date of a submission by an
11 owner pursuant to subsection (c), the Secretary shall notify the owner whether such proposal
12 has been accepted without modification, whether such proposal is acceptable with
13 modification, or whether such proposal is rejected. Upon providing such notice to the owner,
14 the Secretary shall simultaneously submit a copy of such notice with the chief executive
15 officer of the appropriate State or local government for the jurisdiction within which the
16 housing is located and with the mortgagee, to the residents of such housing, and to such other
17 individuals or entities as may be determined by the Secretary. If the Secretary does not
18 respond to a subsection (c) submission within ninety days, it shall be deemed to be accepted
19 without modification.
20

21 (2) REJECTION OF OWNER'S PROPOSAL--The Secretary shall not reject a proposal
22 submitted pursuant to subsection (c) for any reason other than those published pursuant to
23 Section 202 and can only reject a proposal submitted thereunder in such a manner that clearly
24 and precisely states which of the criteria resulted in such a determination and how such
25 criteria were applied in making such determination. The Secretary shall not reject a proposal
26 if doing so would materially affect (A) the availability of decent, safe and sanitary housing
27 affordable to low-income and very low-income families or persons in the community; (B)
28 the ability of low-income and very low-income families or persons to find affordable, decent,
29 safe and sanitary housing near employment opportunities; or (C) the housing opportunities of
30 minorities in the community.
31

32 (3) MODIFICATIONS TO OWNER'S PROPOSAL--The Secretary shall not request
33 modification of an owner's proposal submitted pursuant to subsection (c) for any reason other
34 than those published pursuant to Section 202.

(4) LIMITATION ON SECRETARY'S ABILITY TO REJECT OR SEEK MODIFICATION IN CERTAIN CIRCUMSTANCES--The Secretary shall not reject nor request modification of an owner's proposal because an enforcement action is pending (and in such event, the Secretary shall extend an applicable housing assistance contract until such time as such enforcement action is concluded, and shall provide sufficient subsidies to effectively facilitate the extension of such contract).

(5) NEGOTIATIONS--If the Secretary requests modifications to an owner's proposal, negotiations shall then proceed in such a manner as may be established by the Secretary.

(e) ASSISTANCE FOR PROJECT TENANTS --

(1) RIGHT TO RECEIVE ASSISTANCE--If, in the notice required by subsection (b), the owner indicates a preference not to enter into a new contract, if the Secretary rejects the owner's proposal to enter into a new contract, or if negotiations pursuant to Section 203(d)(5) do not result in agreement on a new contract, all residents in the housing covered by the expiring contract shall, not later than the contract expiration date, receive at the Secretary's discretion either rental assistance pursuant to subsection (e)(2) hereof or shall have the right pursuant to subsection (e)(3) hereof to live in a unit of housing at another location in the same community receiving project-based Section 8 assistance.

(2) FORM OF TENANT BASED RENTAL ASSISTANCE--In the case of tenant-based rental assistance available to project tenants in accordance with subsection (e)(1) hereof, such assistance shall be provided pursuant to Section 8(b) of the United States Housing Act of 1937 as in effect on May 5, 1994, provided that the Secretary shall have the authority to increase the amount of assistance available under such section, as needed to permit tenants to afford to remain in their present housing or to secure comparable housing in the same community.

(3) FORM OF PROJECT-BASED RENTAL ASSISTANCE--The particular form of project-based rental assistance available to project tenants in accordance with subsection (e)(1) hereof shall be determined by the Secretary, in conjunction with appropriate State and local officials, based on conditions in the rental market in the unit of local government in which the project is located, *provided, however*, that to the extent practicable, such assistance shall be pursuant to Section 204 of this Act.

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(f) MINIMUM TIME PERIOD FOR TENANT NOTIFICATION--In no case shall project tenants receive less than twelve months notice of whether housing assistance would continue to be provided where they reside. The Secretary shall provide such additional assistance as may be necessary to extend the contract for the number of months needed.

(g) AUTHORITY TO PROVIDE EXTENSION OF EXISTING ASSISTANCE CONTRACTS--The Secretary shall have the authority, and shall exercise such authority, to extend any Section 8 housing assistance contract presently in force, under their identical terms and conditions, by up to twenty-four months if the Secretary determines that doing so is necessary in order to protect project tenants or the Federal Housing Administration General Insurance Fund, *provided, however*, that such authority is exercised only once per contract or project and *provided further*, that, such authority shall not be exercised in cases where a project owner has provided timely notification of not wanting to enter into a new housing assistance contract, unless such owner expressly agrees to such extension or except when the Secretary is taking action pursuant to subsection (d)(4) or to subsection (f).

(h) TENANT OPPORTUNITY TO COMMENT--Tenants shall have an opportunity to provide comments to the Secretary on any submission made by the owner pursuant to subsection (c). Such comments shall be due to the Secretary within ninety days of the date of the owner's submission pursuant to subsection (c).

SECTION 204. PLAN TO PRESERVE PROJECT-BASED UNITS UNDER CERTAIN CIRCUMSTANCES.

(a) ALTERNATIVE PROVIDERS OF QUALIFIED HOUSING--In the event of an owner's decision not to enter into a new housing assistance contract with regard to a project, in the event of the Secretary's determination not to accept an owner's proposal to do so, or if negotiations pursuant to Section 203(d)(5) do not result in agreement on a new contract (and in the event of an owner willing to sell the project), the Secretary shall develop a plan pursuant to which alternative parties could purchase the property in a timely fashion at its fair market value. Such alternative parties may include and shall not be limited to units of State and local government, non-profit organizations including community housing development organizations and for-profit housing providers, and project tenants. Project-based assistance and other applicable forms of federal assistance shall be made available to such alternative parties.

(b) ALTERNATIVE PROVIDERS OF QUALIFIED HOUSING IN CONNECTION WITH OTHER PROPERTY--In the event of an owner's decision not to enter into a new housing assistance contract with regard to a project, in the event of the Secretary's determination not to accept an owner's

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proposal to do so, or if negotiations pursuant to Section 203(d)(5) do not result in agreement on a new contract (and in the event of an owner unwilling to sell the project), the Secretary shall develop a plan pursuant to which alternative parties could apply up to the number of units of project-based assistance covered by the expiring contract in connection with the acquisition and operation of housing for low-income tenants at another location in the same community. Such alternative parties may include and shall not be limited to units of State and local government, non-profit organizations including community housing development organizations and for-profit housing providers, and project tenants. Project-based assistance and other applicable forms of federal assistance shall be made available to such alternative parties.

(c) TECHNICAL ASSISTANCE--The Secretary shall provide, directly or through appropriate independent third parties, including but not limited to units of State and local government and non-profit organizations, technical assistance for project tenants in preparing filings, proposals, and such other documents and in entering into such contracts, agreements and other arrangements as may be necessary to assist tenants or tenant organizations in activities pursuant to subsection (a) or subsection (b). Within forty-five days of the date of enactment of this Act, the Secretary shall promulgate regulations in order to implement this subsection.

SECTION 205. SETTING RENT LEVELS IN NEW HOUSING ASSISTANCE CONTRACTS.

In the event of execution of a new housing assistance contract pursuant to this title, except as may be provided pursuant to Section 203(d)(4), Section 203(f) or Section 203(g), the owner and the Secretary shall negotiate rent levels, with initial rent levels retroactive to the expiring contract's expiration date, from among the following alternatives --

(a) STATUS QUO METHODOLOGY --

(1) If contract rent levels under the expiring contract, as of the expiration date thereof, are equal to or less than, in the aggregate, at the time of the owner's required notification under Section 203(b), the 65th percentile of the rents paid by recent movers in the nearest metropolitan market area for which Fair Market Rents are determined, the owner may elect that such rents shall be the maximum initial rents under the new contract.

(2) The Secretary shall determine 65th percentile rents for different apartment sizes and types. The Secretary shall determine add-ons to reflect the difference between standard rents and rents for, at a minimum, elevator buildings.

(3) Annual rent increases shall be based on the application of the annual adjustment factor, pursuant to section 8(c)(2)(A) of the United States Housing Act of 1937, *provided however*, that no adjustment for rent comparability shall be made for rents which, in the aggregate, are less than the then-current 65th percentile rents.

(4) The owner may at any time make an election, irrevocable once exercised, to set future rents pursuant to the budget-based methodology set forth in subsection (c).

(5) As of the effective date of a new contract, a comparability percentage shall be determined as follows: the aggregate initial rents divided by the aggregate 65th percentile rents in effect as of the effective date of the new contract. No adjustment for rent comparability shall be made for rents which, in the aggregate, are less than the comparability percentage multiplied by the then-current 65th percentile rents.

(b) ADJUSTED COMPARABLE RATE METHODOLOGY --

(1) An owner can elect to prepare a survey of comparable rents taking into account differences in amenities. Such survey shall include a recommended rent level for the units in the project. The rent levels determined by such survey shall be adjusted upward to account for costs attributable to assuring that the program meets statutory and regulatory goals.

(2) The Secretary shall provide for an independent third party review of the owner's market survey (using for such purpose, at the option of the Secretary, an independent contractor). The Secretary may accept the findings in the owner's market survey or may challenge them and seek to negotiate with the owner.

(3) If such negotiations do not result in agreement between the owner and the Secretary, the dispute shall be referred to binding arbitration. (The Secretary shall promulgate, within forty-five days of enactment of this Act, the methods by which an arbitrator shall be chosen.)

(4) The arbitrator shall select either the owner's last offer or the Secretary's last offer as the initial rent level.

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(5) Annual rent increases shall be based on the annual adjustment factor, pursuant to section 8(c)(2)(A) of the United States Housing Act of 1937, unless the owner makes an election, irrevocable once exercised, to set future rents pursuant to the budget-based methodology set forth in subsection (c).

(c) BUDGET-BASED METHODOLOGY -- Owners may, at any time, convert to the following rent-setting methodology properties whose rents are regulated under subsection (a) or subsection (b) hereof, or adjusted pursuant to Section 8(c)(2)(A) of the United States Housing Act of 1937, with such election irrevocable once exercised:

(1) Not less than every two years, the owner may make to the Secretary a submission for determination or redetermination of rents based on actual and projected costs to operate the project. Rents shall be established at a level mutually agreed on between the owner and the Secretary at such a level or levels that would provide income sufficient to support the following:

(A) Debt service on any FHA-insured loans or other loans approved by the Secretary either at the time the loans were entered into or subsequently, *provided* that the Secretary shall not be required to approve any debt service attributable to equity take-out loans, and *provided further*, that following promulgation of regulations pursuant to Title III of this Act, the Secretary may refuse to permit rents to be established to defray the costs of debt service on loans covered by such Title that are in excess of what the Secretary determines is likely to be required for new debt service payments subsequent to a refinancing under prevailing market conditions at the time of such refinancing.

(B) Project operating expenses, including justifiable anti-crime costs and justifiable costs for service coordination, including those required by Title V of this Act.

(C) Adequate reserves for the project, as may be determined by a comprehensive plan prepared by the owner and acceptable to the Secretary in the manner provided under Title IV of the Housing and Community Development Act of 1992 [cite] or prepared by the owner in such other manner as may be established by the Secretary.

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(D) An allowance for potential operating losses because of vacancies and failure to collect rents in an amount equal to 5 per cent of any rental income from the project (including any amounts paid in rent for utilities).

(E) An allowance for potential return on investment to the owner in an amount equal to 10 percent of any rental income from the project (including any amounts paid in rent for utilities).

(2) For submissions occurring during the term of an existing contract, such rents shall be effective as of the first day of the first month following completion of a thirty day processing period beginning on the day that the owner's submission is received by the Secretary.

(3) The owner, not earlier than one year after the most recent adjustment, may adjust rents to take into account any increases in the Consumer Price Index-All Urban Consumers, for the most recent twelve month period for which such Index is available, applying such factor to the portion of such rent that is not attributable to debt service costs including principal, interest and any FHA mortgage insurance premium.

(4) If the two most recent rent adjustments were made pursuant to paragraph (C)(3) and the Secretary determines that the resulting rents are materially in excess of those necessary to operate the property in accordance with applicable law, the Secretary may require the owner to make a new submission pursuant to paragraph (C)(1). If such submission results in a determination that lower rents are in order, the Secretary shall have the authority to reduce rents to such lower level, with such reduced rents effective on the first day of the month following a notification by the Secretary to the owner of such new rents. If the owner fails to make a submission pursuant to paragraph (C)(1) within ninety days following a request by the Secretary that the owner do so, the Secretary may determine new rent levels based on such operating expenses as are available to the Secretary from the owner's most recent audited financial statements.

SECTION 206. DELEGATION OF AUTHORITY.

The Secretary may delegate such authority under this Title as is deemed appropriate to such officials of State or local government who shall serve as contract administrators under applicable law.

MAY 5, 1994 DRAFT #2**TITLE III--REFINANCING OF UNDERLYING DEBT****SECTION 301. REFINANCING OF UNDERLYING DEBT - GENERAL RULE.**

Within 60 days of the date of enactment of this Act, the Secretary shall promulgate regulations setting forth terms and conditions for refinancing of all projects constructed or substantially rehabilitated pursuant to Section 8 of the United States Housing Act of 1937 which have been financed with assistance of a loan made by, or insured, guaranteed or intended for purchase by, the Federal Government, or financed by a loan or loan guarantee from, a State or local agency with underlying debt requiring debt service payments in excess of what the Secretary determines is likely to be required for new debt service payments subsequent to a refinancing under prevailing market conditions at the time of such refinancing, which refinancing is feasible under the terms of the loan and which refinancing would result in savings that the Secretary determines are great enough to make such refinancing worthwhile.

SECTION 302. CIRCUMSTANCES WHERE GENERAL RULE SHALL NOT APPLY.

The regulations promulgated pursuant to Section 301 shall not apply to any project financed through bonds issued by a State or local housing agency if the bonds issued originally to finance the project have been refunded or repaid prior to the promulgation of regulations pursuant to this Title.

SECTION 303. RECAPTURE OF SAVINGS.

(a) **STATE OR LOCAL AGENCY SAVINGS**--The regulations promulgated pursuant to Section 301 shall include a method by which the Secretary shall make available to a State or local housing agency initiating the refinancing of a project subsequent to enactment of this Act an equitable share of the savings recaptured from refinancing the project, or a reasonable fee based on the State or local housing agency's time and expense. Notwithstanding any other provision of law, such amounts shall be used only for the public purpose objectives of such State or local housing agency.

(b) **SAVINGS BY OTHER PARTIES**--The regulations promulgated pursuant to Section 301 shall include, to the extent practicable, a method by which the Secretary shall make available to owners, lenders and other appropriate parties an equitable share of the savings recaptured from refinancing the project, or a reasonable fee calculated on the basis of such factors as time and expenses.

MAY 5, 1994 DRAFT #2**SECTION 304. LIMITATION ON POWERS OF THE SECRETARY UNDER THIS TITLE.**

Nothing in this Title shall confer to the Secretary any authority to require owners of projects covered by this Title, holders of mortgages made to finance such projects, or State or local housing agencies that issued bonds to finance such projects, to refinance such bonds beyond that permitted by applicable law, mortgages, contracts, or any other applicable documents pertaining to such projects.

TITLE IV--RETENTION OF PROGRAM SAVINGS BY THE SECRETARY**SECTION 401. RETENTION OF PROGRAM SAVINGS BY THE SECRETARY.**

Any savings achieved through implementation of the provisions of this Act, except for such savings made available to state or local housing agencies pursuant to Section 303(a), or made available to other parties pursuant to Section 303(b), shall be retained by the Secretary to increase affordable housing opportunities, in such manner as may be determined by statute, or as may be determined by the Secretary.

SECTION 402. RESIDUAL RECEIPTS.

Residual receipts distributed to the Secretary shall be retained by the Secretary for use under Section 8 of the United States Housing Act of 1937 and this Act.

TITLE V--SUPPORTIVE SERVICES**SECTION 501. PROVISION OF SERVICE COORDINATOR.**

Within 180 days of the date of enactment of this Act, owners of housing constructed or substantially rehabilitated pursuant to Section 8 of the United States Housing Act of 1937 and party to a housing assistance contract then in force shall provide a service coordinator, on either a full-time or part-time basis, who shall have the responsibility of assisting residents with social and supportive service providers in the vicinity of the project.

SECTION 502. PAYMENT OF COSTS ASSOCIATED WITH SERVICE COORDINATOR.

The salary and other costs associated with employing a service coordinator shall be an eligible project expense fully funded under the housing assistance contract, either as a budget item under

Section 205(c) or as an increase in the rent to what the owner would otherwise be entitled under Section 205(a) or Section 205(b).

TITLE VI--DEFINITIONS; AUTHORIZATION OF APPROPRIATIONS

SECTION 601. DEFINITIONS.

For purposes of this Act--

(1) The term "expiring contract" means any contract for assistance under Section 8 of the United States Housing Act of 1937 pursuant to the authority referred to in paragraph (2).

(2) The term "qualified housing" means --

(A) a multifamily housing project that was constructed or substantially rehabilitated pursuant to assistance provided under Section 8(b)(2) of the United States Housing Act of 1937, as such section existed before November 30, 1983 and for which assistance is provided pursuant to an expiring contract; or

(B) housing that is acquired pursuant to provisions of Section 204(b) of this Act.

(3) The term "costs attributable to assuring that the program meets statutory and regulatory goals" as such term is used in Section 205(b)(1) of this Act means not less than eight nor more than fifteen percent.

(4) The term "Secretary" means the Secretary of Housing and Urban Development.

SECTION 602. AUTHORIZATION OF APPROPRIATIONS.

(a) BUDGET AUTHORITY UNDER UNITED STATES HOUSING ACT OF 1937--The budget authority under Section 5(c) of the United States Housing Act of 1937 (42 U.S.C. 1437f) for assistance under Section 8() of such Act is authorized to be increased by such sums as may be necessary.

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1 (b) AUTHORIZATION OF APPROPRIATIONS OUTSIDE OF UNITED STATES HOUSING ACT OF
2 1937--In addition to the increase in budget authority provided in subsection (a), there is authorized
3 to be appropriated such additional sums as may be necessary to carry out the provisions of this Act.

Questions for Mr. McIlwain from Chairman Gonzalez
Hearing on May 5, 1994

1. What criteria would NHC recommend for annual adjustment factors?

2. How does the Task Force respond to constant criticism that "status quo" section 8 rents are too high?

3. I can appreciate your comments about service coordinators; however, do you believe that the section 8 rents or HAP contracts will have to be increased to pay for such costs? Aren't many properties able to pay for these costs under existing contracts?

(McIlwain's Responses)

**Questions for Mr. McIlwain from Chairman Gonzalez
Hearing on May 5, 1994**

1. What criteria would NHC recommend for annual adjustment factors?

Whatever formulation the Secretary determines should be predictable and well understood by housing providers and not be subject to arbitrary revision. The precise features of such a determination were discussed in a general way during NHC's hearings and meetings on Section 8, but not in great detail. There was concern, however, that the Department not be allowed to "game the system" for budgetary reasons. In that context NHC feels that HUD should not be allowed to freeze annual adjustment factors in cases where Section 8 rents are at area Fair Market Rents, nor should HUD be permitted to reduce annual rent increases when tenants have not moved.

2. How does the Task Force respond to constant criticism that "status quo" Section 8 rents are too high?

This is a highly controversial area, in light of press accounts of isolated abuses in the program.

However, during the several months of deliberations by NHC, tenants, tenant advocates, government officials, nonprofit and for-profit housing providers and others uniformly maintained that project-based Section 8 housing is generally of superior quality than federally assisted housing produced pursuant to prior federal programs. Moreover, Section 8 housing was built in the 1970's and 1980's pursuant to a policy determination that safe and decent housing for low income Americans should be built because of the pervasive need for such housing, almost without regard to the construction or financing costs. In many depressed areas in this country, no other multifamily rental housing of comparable quality exists -- even if vastly inferior housing does exist at lower rents. If, as a matter of policy, this country continues to believe that low income Americans should be adequately housed, then this country must face the reality that providing adequate housing is inherently costlier than inferior housing in the same or nearby communities. And, of course, in many instances, an absolute shortage of housing supply means that alternative housing, no matter how inferior, is not even available.

That is not to say, however, that there are not abuses in the system, nor that legislation enacted this year should not give the Secretary of Housing and Urban Development the option not to renew housing assistance arrangements with owners of Section 8 housing who have misused the program. However, housing preservation should remain the paramount objective.

3. I can appreciate your comments about service coordinators; however, do you believe that the Section 8 rents or HAP contracts will have to be increased to pay for such costs? Aren't many properties able to pay for these costs under existing contracts?

During our deliberations, we did not hear that many properties could defray the costs of service coordinators under existing contracts. Suffice it to say, however, that the costs associated with providing service coordinators as well as such other items as security against drugs and

violent crime will be factors to be considered in developing a budget for a property whose contract is established under the optional budget-based methodology set forth in our recommendations. At the same time, during our deliberations, we learned both of the need for service coordinators and of the fact that the costs associated with providing them are usually conceived of in a different context than such factors as debt service, reserve for capital improvements, traditional operating expenses and overhead, which are the sort of items typically considered in rent calculations. We have no reason to assume that merely because some housing providers may be able to afford the costs of service coordinators that all providers can do so; the importance of service coordination efforts warrants increasing funds provided under housing assistance contracts to defray these costs.

Testimony on Federal Housing Administration Initiatives

**House Committee on Banking, Finance, and Urban Affairs
Subcommittee on Housing and Community Development**

**Karl Smith, Executive Director
Pennsylvania Housing Finance Agency**

**on behalf of the
National Council of State Housing Agencies**

May 5, 1994

Good morning Mr. Chairman, Congresswoman Roukema, and members of the Subcommittee. I am pleased to testify this morning on HUD's single and multifamily mortgage insurance programs and the Preservation program.

My name is Karl Smith. I am Executive Director of the Pennsylvania Housing Finance Agency and Co-Chair of the National Council of State Housing Agencies (NCSHA) Homeownership Committee.

NCSHA is a national, nonprofit organization created in 1970 to assist its members in advancing the interests of lower income people through the financing, development, and preservation of affordable housing. NCSHA's members are Housing Finance Agencies (HFAs) with statewide authority. NCSHA's members operate in every state, the District of Columbia, Puerto Rico and the Virgin Islands.

At the center of HFA activity are the Mortgage Revenue Bond (MRB), Low Income Housing Tax Credit (Tax Credit), and HOME Investment Partnerships (HOME) programs. NCSHA's members also administer numerous other state and federal housing assistance programs.

I would like to make three points this morning:

- 1) Revitalizing FHA multifamily mortgage insurance is critical to increasing the production of affordable rental housing. HUD has taken an important step forward by implementing the FHA/HFA risk-sharing program Congress approved in 1992.
- 2) NCSHA commends HUD for its efforts to expand the availability of FHA single family insurance. We would like to work with this

Subcommittee to ensure that HUD's specific proposals offer the greatest possible help to the lower income borrowers we serve.

- 3) Congress should again reject HUD's proposal to reduce the federal cost limits for the Preservation program and instruct HUD to delegate processing of projects to qualified HFAs which wish to take on this responsibility.

I would also like to thank this Subcommittee for acting quickly this year to pass the Multifamily Property Disposition Reform Act of 1994. In addition to speeding disposition of HUD-owned multifamily properties, this bill made important improvements to HOME and other programs.

FHA Multifamily Housing Initiatives

As financiers of affordable rental housing for lower income people, HFAs have a substantial stake in the availability of FHA multifamily mortgage insurance. We were deeply concerned when the annual volume of FHA mortgage insurance dropped dramatically from 1987 to 1992. During this period, the number of rental units affordable to low income people nationwide decreased, while rent burdens increased. It is absolutely critical that FHA revitalize its multifamily mortgage insurance programs.

HUD has taken an important step in this direction by quickly implementing the FHA/HFA multifamily risk-sharing demonstration program Congress approved in late 1992. Under the leadership of Secretary Cisneros and Assistant Secretary Retsinas, HUD has gone from zero to full implementation of this program in less than nine months. Last month HUD approved 28 state and 5 local HFAs, including the Pennsylvania HFA, to participate in this program. All states who applied met HUD's standards for participation. Participants may begin processing loan applications immediately.

This program has tremendous potential to increase the availability of FHA multifamily insurance and thus the production of affordable rental housing. States will use it to finance a variety of affordable housing projects. In Pennsylvania, we will use the program primarily to rehabilitate existing apartments and extend their useful life as lower income developments. These properties might otherwise fall out of the affordable housing stock. We will also insure mortgages supporting Tax Credit projects, which often have difficulty securing financing. Some states will also finance assisted living properties, providing housing and services for frail elderly persons who need assistance with daily living activities.

We recommend that instead of extending the demonstration for two years as HUD requests, you authorize it as a permanent program and remove the cap on the number of units that may be insured under it. The cap was imposed because the former Administration opposed the risk-sharing program and insisted on limiting it. Such an arbitrary limit is unnecessary and will delay or even prevent production of needed affordable housing. Under the current cap, for example, Pennsylvania is entitled to only 1,155 units this year.

HUD should be given the discretion to approve as many units under the program as it determines is appropriate in any fiscal year. If demand is high in the next three years and HUD determines that the program is operating effectively, it should not be limited to insuring only 30,000 units over that period.

FHA Single Family Proposals

HFAs also have a substantial stake in the availability and affordability of FHA single family mortgage insurance. According to NCSHA's 1992 survey of MRB activity, 44 states relied on FHA to insure some portion of their MRB loans. Of those, 29 reported that 70 percent or more of their MRB loans were insured by FHA. The majority of the remaining loans were insured by private mortgage insurers, state insurance funds, or the Veterans Administration. Some loans were insured by the Farmers Home Administration.

Historically, FHA's purpose has been to make affordable mortgage credit available to low and moderate income homebuyers. This Committee took important action in 1990 to ensure that the FHA Mutual Mortgage Insurance Fund remains sound and able to carry out this mission. We understand that estimates project that HUD is meeting and will continue to meet the capital targets you have set for the Fund for insurance in force.

With the Fund in good health, HUD took steps in March to make FHA mortgages more affordable and more competitive with private mortgage insurance by lowering the upfront premium from 3 percent to 2.25 percent. HUD has also made administrative changes in the 203(k) single family rehabilitation program which will speed up loan processing and expand the list of eligible repairs. These changes will help additional lower income families purchase or repair their homes.

Based on our initial reading, we have the following comments on the FHA single family proposals HUD included in the Housing Choice and Community Investment Act of 1994:

Increasing Mortgage Insurance Limits

Increasing the FHA single family mortgage insurance limits will assist homebuyers in both high-cost areas, for which the limits now are too low, and in areas which do not qualify as "high cost" but for which the average area purchase price is higher than \$67,500. HUD's proposal to replace the \$67,500 limit with the average area purchase price limit determined for the MRB program seems reasonable and will help many states, but there may be cases where it is not sufficient. We are looking into this now and will let you know as soon as possible if we have any alternative suggestions.

The Subcommittee should be aware that there are currently some problems with the MRB safe harbor purchase price limits. First, HUD is chronically late in updating them. The last time these limits were published was in April, 1992. States are now relying on limits that are two years out of date. HUD must make it a priority to update these numbers annually, both for the MRB program and if it intends to use them for the FHA program.

The other problem with the purchase price limits is that the data they are derived from is incomplete. This data is collected by the Federal Housing Finance Board from a survey of lenders. It does not include all lenders, and many covered lenders do not report their data regularly. Further, the survey only covers loans closed in the first five days of the month, yet a higher proportion of home loans close at the end of the month than the beginning. It is not unusual for data for a metropolitan statistical area (MSA) to be so incomplete that the MSA is wrapped in with non-MSAs for purposes of the purchase price limit. This means that the limit in some MSAs is lower than the actual median purchase price in that area.

To ensure that they have accurate limits set in a timely manner, several states, including Pennsylvania, would like to have the option of determining the average area purchase prices for the MRB program themselves. We would like to explore this possibility further.

No-Downpayment Program for Revitalization Areas

NCSHA supports HUD's proposal to create a no-downpayment program for first-time homebuyers. However, we would urge the Subcommittee to consider that the need for such a program extends well beyond narrowly defined revitalization areas. At a minimum, the definition of eligible areas should be expanded to include rural revitalization areas.

The insurance authority for the initiative should be available in any federal, state, or local revitalization area. Fifty percent of the initiative should not be limited, as HUD proposes, to federal and state-approved empowerment zones and enterprise communities.

High Cost Area Risk-Sharing Program

We also support HUD's proposal to develop a risk-sharing program with state and local agencies to insure mortgages in high cost areas for homes which are priced above the FHA mortgage limits. The median home price in certain markets, including much of California, is far above the maximum loan amount insurable under FHA, even with the increase HUD is proposing. As a result, FHA insurance is of minimal use in those areas. Making FHA insurance available through a risk-sharing program would make homeownership an option for a greater number of people in those areas who cannot afford to purchase with conventional financing.

We would like to work with the Subcommittee to ensure that HFAs can participate effectively in this program. We are concerned, for example, that HUD is proposing that the HFAs' underwriting standards be subject to HUD review. Under the multifamily risk-sharing program, HFAs which take on a high proportion of risk may utilize their own underwriting practices without HUD review. Having to obtain HUD approval of their underwriting may discourage some states from participating in the proposed program.

We also recommend that loans made under this program be eligible for Ginnie Mae securitization. Otherwise, loan originators will be limited to selling the loans to Fannie Mae or Freddie Mac or participating in a loan pool, which carries the cost of pool insurance. This will discourage lenders from participating. We also recommend that the legislation make clear that if an HFA's participation in the program is canceled, the validity of any insurance in force at that time will not be affected.

Innovative Demonstration Programs

We support HUD's request for authority to develop demonstration programs to test alternative mortgage instruments and new partnerships with such entities as HFAs and the government-sponsored enterprises. HUD should have more flexibility than it currently does to explore ways of improving its programs.

Preservation

As we have consistently over the past few years, NCSHA strongly opposes HUD's proposal to weaken the Low Income Housing Preservation and Resident Homeownership Act (LIHPRHA) by reducing the federal cost limits to 100 percent of FMR. Currently, the cost limit is the higher of 120 percent of FMR or 120 percent of the prevailing rent in the relevant local market area. Each year, OMB and HUD propose this amendment, and each

year Congress rejects it. We encourage you to reject it again. This proposal is made worse by HUD's corollary proposal to eliminate the mandatory sales process and the special grant fund reserved for projects that exceed the limits.

Reducing the cost limits will allow a large number of properties to fall out of the low income inventory, the very result LIHPRHA was designed to prevent. This is a problem not only in high cost areas but in other areas where the FMRs are lower than rents in a neighborhood. It is not even clear that this proposal will result in the cost savings HUD expects, since HUD would have to provide Section 8 assistance to any displaced tenants. Substituting tenant-based assistance cannot make up for the loss of projects from the inventory, nor should Congress attempt to shift the cost of this federal responsibility to state and local governments as HUD proposes.

Although we believe HUD is sincere in its efforts to implement LIHPRHA, HUD's preservation processing is still very slow. The backlog of projects awaiting processing is growing. We are still trying to convince HUD to speed the process by moving forward on Congress's mandate that HUD delegate authority for processing preservation projects to those HFAs which are willing and able to take on that responsibility. With its severe staffing constraints, HUD may never be able to fully implement LIHPRHA without this assistance.

We urge you not to approve any cut in the authorization level for LIHPRHA. Although the program had a slow start due to its extremely complex statutory and regulatory framework, hundreds of project owners have now filed notices of intent to seek preservation incentives or sell their properties subject to use restrictions. HUD has not yet made public any analysis proving its claim that funds already appropriated for this program are sufficient to last through FY 1995. In the absence of such a study, we are encouraging the Appropriations Committee to reject HUD's proposal to zero out the program in FY 1995.

Conclusion

We commend HUD for its efforts to revitalize the FHA single and multifamily mortgage insurance programs. We will continue to work with HUD and with this Committee to make those programs widely available and affordable to low income people.

Questions for Mr. Smith from Chairman Gonzalez
Hearing on May 5, 1994

1. In your testimony you endorse HUD's proposal for innovative demonstration programs. Can you provide the Subcommittee with your thoughts about what some of these demonstrations might be?

2. Do you have any estimates of the funding required for the preservation program this year?

3. Can you comment on state housing finance agencies' interest in administering funds under the National Homeownership Trust.

Responses from Mr. Smith to Chairman Gonzalez' Questions

(1) NCSHA and the Pennsylvania Housing Finance Agency support HUD's request for authority to develop demonstration programs to test alternative mortgage instruments and new partnerships with such entities as HFAs and the government-sponsored enterprises. HUD should have more flexibility than it currently does to explore ways of improving its programs. HFAs are eager to work with HUD to develop no and low downpayment programs and more flexible underwriting for lower income home buyers.

(2) It is very difficult to estimate the amount of funding that will be required for the Preservation program nationally for the upcoming fiscal year. We urge you, however, to caution the appropriators against dramatically cutting or eliminating funding for the Preservation program as the Administration has suggested. Although this program had a slow start due to its extremely complex statutory and regulatory framework, the National Housing Trust reports that over 700 project owners have now filed notices of intent to seek preservation incentives or sell their properties subject to use restrictions. HUD has not yet made public any analysis proving its claim that funds already appropriated for this program are sufficient to last through FY 1995. In the absence of such a study, it would be imprudent to significantly cut or zero out the program in FY 1995.

(3) NCSHA and its member HFAs are extremely enthusiastic about the reauthorization, refinement, and likely funding of the National Homeownership Trust, which the Chairman first proposed in 1990. The Trust will provide a vital source of downpayment and closing cost assistance to lower income home buyers who could not otherwise afford home ownership, even with an interest rate writedown. In addition, HFAs, by leveraging these funds with Mortgage Revenue Bond (MRB) mortgage interest assistance, will be able to provide even lower mortgage interest rates than with MRBs alone, making it possible to reach even lower income home buyers.

We agree with many of the revisions to this program that the Administration has suggested, particularly those designed to target these resources to lower income buyers. We would suggest, however, that the flexibility to provide interest rate writedowns under the Fund not be eliminated. Some applicants may find this to be the best option for the population they serve. In addition, the program should be adaptable to changing circumstances. While interest rates are relatively low now, they could rise substantially in the future, making interest rate assistance a more attractive option.



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Statement of

David W. Houze

Vice President, National Assisted Housing Management Association

before

The Subcommittee on Housing and Community Development

of the

House Committee on Banking, Finance and Urban Affairs

May 5, 1994

Mr. Chairman, ladies and gentlemen, I appear before you today on behalf of my colleagues in the assisted housing management industry. I represent the National Assisted Housing Management Association (NAHMA). My name is David Houze and I am President and CEO of Broad Street Management of Columbus, OH, and Vice President of NAHMA. I would like to thank the Chairman, Members of this Committee and its staff for the opportunity to appear before you today.

I am going to speak to you today about a few issues of which my organization is particularly concerned. I will also define a vision of assisted housing in this country, a vision we call "Communities of Quality."

These are very challenging times in America. Currently, I believe we are at a crossroads in housing policy in this country. We can either maintain adequately the assisted housing stock which men and women over the better part of thirty years have dedicated themselves to or we can despair and turn away from that which we as a nation have invested much to create.

COMMUNITIES OF QUALITY

Over the period of the last few years, NAHMA has worked hard to define and articulate a vision for assisted housing in this country. That vision is called Communities of Quality. NAHMA's vision of Communities of Quality is based upon three primary principles.

- 1) **Continuous Maintenance** - Achieving high maintenance standards in each apartment every day and replacing aging components as they become dysfunctional.
- 2) **Professional Management** - Cost effective management by energetic, knowledgeable, private sector professionals who follow sound financial practices and comply with regulations.
- 3) **Access to Community Services** - Working together with residents, managers can help to locate existing community services at minimal costs in such areas as education, child development, preventive health care, recreation, job skill development, cooperative purchasing, crime prevention and anti-drug initiatives.

It is our belief that professional property management is essential to achieving a high quality of life in assisted communities. We believe that the tools and resources necessary to maintain this stock must be the foundation upon which housing policy is based. Programs that seek to sustain an irreplaceable resource in this country for low income people must have equal footing with those programs which seek to add to the inventory. The magnitude of the number of people on waiting lists across this country for public and assisted housing demands that we seek new ways to address pressing housing needs in a cost effective manner. We need to address these housing needs by creating new housing resources and by preserving the existing inventory. Mr. Chairman, in light of the evidence of aging properties; some with unmet physical needs; in light of the rising rate of crime in lower income communities across the country; and in light of the

need to harness the creative abilities of this country's housing experts to more appropriately link necessary services to communities with needs, we simply must go beyond where we are today or the Communities of Quality vision to which I refer will be just that, a vision.

LEGISLATIVE IMPROVEMENTS

NAHMA wishes to compliment this committee, your leadership, Mr. Chairman, and Secretary Cisneros on the recent passage of the property disposition legislation. That legislation contained thoughtful provisions which can foster Communities of Quality across this nation.

For example: NAHMA applauds the decision to improve the Flexible Subsidy Program to make it more useful for privately owned assisted communities.

We also support the Administration's changes under Title IV of the 1992 Act and urge speed in implementation.

HOUSING CHOICE AND COMMUNITY INVESTMENT ACT OF 1994

The Housing Choice and Community Investment Act of 1994 proposed by the Administration contains numerous provisions that impact assisted housing. We assume that this committee will be crafting legislation which takes into consideration the recently introduced legislation and the remaining elements of H. R. 3838. NAHMA has only recently received the full text of this

legislation and is now in the process of reviewing it. Mr. Chairman, on behalf of NAHMA, I would like the record to reflect our intention to submit to this committee detailed comments on those aspects of the legislation which most impact the assisted management industry. Among the provisions we will look closely at are:

- 1) The anti-crime provisions of the legislation, particularly the proposed gun ban provision, along with the provision with respect to the ability to make criminal records available for screening and evictions. Generally speaking, we applaud the willingness of this Congress and the Administration to take bold measures to address crime in assisted housing. We do not and should not ignore, however, the individual rights of applicants and residents alike, and we look forward to working with you to achieve a necessary and proper balance between the two.
- 2) NAHMA will also look closely at the provisions of the legislation dealing with the fostering of economic opportunity for residents and the resident management/tenant opportunity program.
- 3) NAHMA views as important the need to expand the Section 811 Rental Assistance Program for persons with disabilities and the funding of supportive housing for the elderly. We are pleased that both items are contained in the legislation. We will comment further on both points.
- 4) NAHMA has dedicated a major portion of its resources to the promotion of training and education with respect to fair housing and Section 504. We therefore will review with interest the provisions of Title VI of the bill which relate to such matters. We will comment specifically on the Metropolitan Area-Wide Strategy Demonstration program.

- 5) Finally, and perhaps most importantly, we will review closely the provisions of Title VIII of the proposed legislation which seeks to provide management reforms under programs critical to our communities. NAHMA has already, and later in this testimony, will underscore its concern and possible future opposition to provisions which under the name of reform and cost savings may, in fact, undermine the financial integrity and viability of the projects we manage.

In order to make Communities of Quality a reality, the HCCIA of 1994 must address three issues:

- 1) it must address the renewal of expiring Section 8 New Construction and Substantial Rehabilitation contracts;
- 2) it must include significant assisted housing funding under the COMPAC program to fight drug related crime in assisted housing and
- 3) we believe it should further the discussion and opportunity to better link housing and services in assisted housing.

DRUG RELATED CRIME AND SERVICE COORDINATION

NAHMA has consistently spoken out on the danger and violence connected to the trafficking of illegal drugs in assisted housing. NAHMA seeks to broaden the base of Operation Safe Home by coming forward with a Crime Prevention Strategy Areas concept with HUD and our friends at the U. S. Conference of Mayors. NAHMA endorses the inclusion of assisted housing in the COMPAC program on a permanent basis and seeks authorization of up to 10% of the funds

appropriated under that program upon passage of this legislation. The facts surrounding drugs and crime in assisted housing, we believe, overshadow the political barriers which have limited funding for these purposes to assisted housing over the period of the last four years. We have also consistently supported Service Coordinators for multifamily programs and see this as another essential ingredient in developing Communities of Quality.

I would like to address at this time, two other issues related to the proposed legislation: enforcement of HUD policies and proposed changes to the LIHPRHA preservation program.

ENFORCEMENT

With specific respect to Assistant Secretary Retsinas' recent comments before this committee, which relate to the matter of enforcement, let me note for the record where we stand. NAHMA endorses HUD's efforts to examine closely and redefine the manner to which it enforces violations of HUD policies by owners and managers of assisted housing. NAHMA has been consistently on record that we will not tolerate such violations by individuals who give many good managers a bad name. NAHMA has been working with HUD to develop an overall enforcement approach which includes due process protections such as opportunities to cure alleged violations, and expert, impartial forums for prompt resolutions of disagreements.

In the context of such an improved overall enforcement approach, NAHMA might well support additional enforcement tools for HUD. However, NAHMA believes that when the new enforcement approach is developed, HUD will not need the changes it has consistently proposed,

including the imposition of Civil Money Penalties. Instead, HUD may need other changes whose nature will not be apparent until the overall enforcement approach is developed.

PRESERVATION

The Administration also proposes changes to the LIHPRHA preservation program, purportedly as cost savings measures. However, the proposed changes would have the effect of vitiating Congress' expressed intent to preserve all of the expiring-use housing by paying fair market value to property owners. Moreover, NAHMA believes that the proposed changes would in fact produce no meaningful savings. NAHMA urges Congress to reject these proposed program changes, particularly the proposed reduction in the federal cost limits from 120% to 100%, so that this housing can be preserved as Congress intended, for long-term affordable housing for low and moderate income Americans. NAHMA also suggests that any effort to alter the LIHPRHA program be set-aside until the work underway by the National Housing Trust, at HUD's request, is completed.

SECTION 8 CONTRACT RENEWALS

At the heart of our concern with respect to the longer term viability of Communities of Quality, Mr. Chairman, we would like to focus attention today upon the need to address perhaps the greatest housing challenge to confront us for the remainder of this decade, that being the renewal of Section 8 contracts.

NAHMA applauds the proactive steps taken by the Administration in cooperation with the broad

based task force convened at HUD's request by the National Housing Conference. I was privileged to be a member of the Task Force convened by NHC to address this issue. Prior to this effort, I would like to make you aware, Mr. Chairman, that NAHMA members have been actively engaged in the study and analysis of this issue for over a year. On behalf of our members, some of whom face expiration of their current contracts in FY 1995. I offer the following comments to outline the basic principles upon which our position is based:

- 1) Contracts should be renewed at the owners option on a voluntary basis and not as mandatory policy of continued ownership of the property or properties in question. This would be in order to avoid an administratively burdensome appraisal based process.
- 2) All contracts should be renewed for a minimum of five years and be renewable for up to four consecutive terms.
- 3) The owner should have the option to renew existing contracts under one of three proposed methodologies we have defined as status quo, budget based and market rate.

Each methodology is spelled out in detail in a position paper we have developed on this subject which without objection, Mr. Chairman, I would like to submit for the record at this time. I will briefly highlight characteristics of each of these methodologies for your benefit here today.

Status Quo

Under the status quo method we propose that properties whose current rents are reasonable and which are viable at those rents, renew on substantially the same terms as the expiring contract.

Budget Based

Under the budget based approach, we propose that properties which are not viable at market rents have their rents determined according to the expenses, including debt service necessary to operate the property up to HUD's standard.

Market Rate

Under the market rate method, we propose that properties which could increase their rents upon expiration of the current contract renew at market rents.

NAHMA has been in communication with both the administration and with our colleagues in the industry on this matter. NAHMA and the National Leased Housing Association of which I am also a member, are in virtual unanimity in the approach we present to you today. Much of what we present is also consistent with the recommendations of the broad based Task Force convened by the National Housing Conference. In closing on this issue, let me simply urge that we marshal our resources to address this problem now. We recommend that in doing so you take into account the need to:

- 1) give residents significant advance notice of contract expiration, together with definitive information on contract renewal;

- 2) adequately protect residents against unwarranted displacement;
- 3) make effective use of limited federal resources;
- 4) preserve as much of this valuable housing as possible for continued use by low and moderate income Americans; and
- 5) do so in a way which is consistent with creating and maintaining Communities of Quality.

We also realize that you will be interested in more efficiently utilizing project based resources such as residual receipts. In this regard Mr. Chairman please know that:

- 1) NAHMA supports the refinancing of existing project mortgages and the use of resulting savings in project based assistance for preservation activities.
- 2) NAHMA supports the use of current and future residual receipts funds for preservation activities.
- 3) NAHMA supports efforts to leverage limited HUD funds through changes in the Federal Income tax code to promote preservation activities. While we recognize that it is not within the jurisdiction of this committee to act on tax related matters, we do wish to bring to your attention the following:

- a. If the government fails to renew or provide subsequent subsidy, NAHMA believes that all paper gains (phantom income and recapture) should not be taxable.

- b. During the contract period, paper gains should not be taxable and the only reportable income would be that represented by distributed cash flow. Owners of expiring use properties are very concerned about potential income to tax problems should they decide to continue the property as low-income.

CONCLUSION

Mr. Chairman, I would like to conclude my remarks with the following additional observations.

- 1) It is my hope that now that both Congress and the Administration having made great strides in revising the current HUD Flexible Subsidy program will work to ensure that it will not go through the annual reduction that occurs in funding for this necessary and valuable preservation tool. "Flex" as it is so often referred to has for too long been a political football, considering its spend out characteristics and other budgetary quirks. NAHMA urges that you reject efforts to reduce funding for "Flex" which is necessary to assist NAHMA Communities of Quality and the people who reside in those communities.
- 2) We urge that you communicate with your colleagues on the Appropriations Committee in support of necessary funding under the Section 8 Amendments line item to provide resources to support valid, approvable rent increases for additional security for properties in drug impacted areas. In this regard, we would like to point out that in 1990 this Committee authorized these rent increases. Today, four years later, we still have not seen regulations or funding to support your intentions. We do wish, however, to

compliment Assistant Secretary Retsinas and Deputy Assistant Secretary Helen Dunlap on the recent progress that they have made to move this issue forward.

- 3) We also urge you to resist efforts intended as cost savings to
 - a) limit or curtail necessary adjustments to Section 8 contracts using the AAF and;
 - b) reduce over time the current number of LMSA units which have been added to keep assisted housing communities viable. LMSA, in our opinion, should not be lost on the basis of matters which have greater bearing in the area of oversight and enforcement due to mismanagement. Under this scenario many more loose than win. As I noted, we will have more detailed comments on the provisions found under Title VIII of the proposed legislation.
- 4) Finally, NAHMA wishes to reiterate its interest and willingness to encourage the breaking down of barriers to Fair Housing. We look forward to continuing to work with Assistant Secretary Achtenberg and Assistant Secretary Retsinas to ensure that a necessary and appropriate balance is maintained with respect to the rights of all potential applicants and current residents and to the responsibility of preserving assisted housing as a viable resource. We recognize for example the Administration's efforts to better enforce Section 3 compliance. At the same time we urge that compliance responsibilities and monitoring by HUD, not overburden the management process.

In conclusion, I want to state for the record, that while we have raised concerns that the preservation aspects of current legislation may not go as far as we would like, this is not to say that the items currently included in this legislation are not well presented or viable. The

Secretary's fervent desire to address the issue of homelessness is for example, without dissent, well founded and necessary.

Those aspects of the bill which encourage economic development and the need to address years of deterioration in this nation's stock of public housing are two fundamental components of any sound national housing strategy. Further, we are interested and supportive of those aspects of the so-called rent reform initiative being discussed for public housing as a further means to encourage economic integration in government assisted housing. We look forward to a much broader discussion of this subject being more inclusive of assisted housing in the near future.

Mr. Chairman, in many respects we believe this Administration is on the right track. NAHMA as an organization, has worked in a positive and productive fashion with HUD in Washington and throughout the country on implementing and developing many important issues. As HUD seeks to reinvent itself and as the Clinton Administration seeks to reinvent government, NAHMA believes that policies must be put in place to ensure that assisted housing remains viable for the remainder of this decade and beyond. NAHMA members dedicate themselves to this goal and look forward to continuing to nurture and sustain Communities of Quality. I would be most happy to answer any questions that you may have and I thank the committee once again for their attention.

Questions for Mr. Houze from Chairman Gonzalez
Hearing on May 5, 1994

1. Can you comment further on the measures you would recommend as part of an overall enforcement program for HUD?

-- In lieu of the imposition of civil money penalties as one example.

2. How do you answer the critics of the section 8 program who say rents are too high?

3. In your testimony you refer to the section 8 rent increases that have been authorized to provide security improvements to assisted housing developments. If there were sufficient section 8 amendment funding, would you still advocate a 10% set aside of COMPAC or drug elimination grant monies?

(Responses from Mr. Houze)

**RESPONSES TO CHAIRMAN GONZALEZ' QUESTIONS
MAY 5 HEARING**

1. Everyone suffers when a property is mismanaged. More often than not infractions determined as mismanagement are beyond the control of the owner or manager - and possibly are more directly a result of economic and social factors of the area. Less are more simply disregard for HUD regulations. Those who intentionally disregard regulations and neglect their properties are the individuals who give the good managers a bad name. NAHMA believes that those individuals should be reprimanded. NAHMA also believes that such individuals should be prohibited from future participation in HUD programs. NAHMA believes that HUD has several types of enforcement powers that it does not use effectively. We believe the real problem with enforcement is the lack of HUD staff to deal with problems before they escalate into serious violations. We are currently working with HUD on ways to address transgressions of HUD policies and keep infractions from occurring. The best way to do this is through education of field staff and education of managers. HUD must change it's approach and pursue those who are actually committing serious violations. HUD's approach to impose Civil Money Penalties is a way for them to not deal internally with their own problem that has been allowed to escalate and to instead place the blame elsewhere. NAHMA wishes to continue to work with HUD on this matter to ensure that programs are implemented in a responsible manner and that HUD enforcement procedures are administered fairly and efficiently.

2. While in a few and isolated cases project rents may actually be higher than is supportable in the market area, Section 8 rents are reasonable and derived from market data. These rents include additional elements of cost that are not normally incurred by conventional multifamily units.

The requirement for use of Davis-Bacon prevailing wages bases for construction of the project, additional financing costs, the cost of FHA regulations, and other initial requirements contributed to higher than conventional debt service costs and the cost of increased security, management and maintenance costs and the additional costs of administration for accounting costs, HUD automation requirements and paperwork burdens, tenant verification procedures, insurance and the provision for services and compliance with Section 504 contribute to higher operating costs.

However, the typical project rents are not higher than the prevailing market rents, other than from initial differences related to financing issues. They likely are higher than HUD's Fair Market Rents (FMR's) for existing housing, but the FMR's represent the 45th percentile of recent movers and are for conventional housing that has not been subjected to the additional requirements noted above.

HUD and Congress should be proud of the various Section 8 programs, not defensive. They have proven to be an efficient and effective method of providing high quality, safe and decent housing for millions of low-income families and individuals.

3. We need to address in assisted housing the totality of concerns that relate to security needs, which include citizen involvement, anti-drug prevention programs, youth counseling and coalition building.

NAHMA has also advocated for an approach that allows for flexibility in the use of grant monies and through the more systemic use of the rent increase process to address long term security related concerns to combat drugs and crime. Through the submission and review of comprehensive plans by assisted housing providers, HUD will be able to make responsible judgements on the use of grants versus the rent review process; both however must remain in place as options.

We wish to underscore our concern in this area by pointing out that granting HUD the authority to process rent increases that cannot be approved due to insufficient funds leaves assisted housing completely out of the process. Assisted housing must be able to continue to receive grant funding if for no other reason than Congress has yet to appropriate sufficient amendment funds for rent increases to address this issue.

We believe that the effective use of COMPAC grants and rent increases will provide the means necessary to address this critical issue. It is also necessary to point out that assisted housing applications for previous years have been very substantial for the Drug Elimination Grants - but few received awards. We feel this justifiably reflects the need to increase assisted housing's authorized funding level up to 10% of COMPAC. We believe that Congress should validate this need with HUD based upon funding requests to date and arrive at an equitable distribution of the remaining 90% percent of all funds between large and small PHAs.

MR. DENNIS PENMAN

STATISTICS SUBMITTED REGARDING NORTH CAROLINA

North Carolina clearly is not one market. It is my understanding that metropolitan areas, as defined by the Census Bureau, are a "market". These Metropolitan Statistical Areas, or MSAs have an area-wide FHA limit. Outside of the metropolitan areas, the counties, individually become a market, with each county having its own mortgage limit, based on the sales prices within that county. In North Carolina, for example, our data from HUD indicates that there are 8 MSA's that are considered high housing cost areas. Additionally, there are at least 10 counties that are not within an MSA that HUD considers high cost areas. The remaining counties are not high-cost. The actual calculation of the mortgage limit is the responsibility of HUD's office of Housing. They also calculate the maximum mortgage limit for each county for the Mortgage Revenue Bond (MRB) program.



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Bill Rumpf

Written Statement submitted to the

U.S. House of Representatives

Committee on Banking, Finance and Urban Affairs

Subcommittee on Housing and Community Development

with regard to

Housing Choice and Community Investment Act of 1994

Submitted by:

**Bill Rumpf
Chief Executive Officer
California Housing Partnership Corporation**

and

**Richard Mandel
Senior Program Manager
California Housing Partnership Corporation**

May 5, 1994

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Thank you for the opportunity to submit this written statement in conjunction with hearings being held on the Housing Choice and Community Investment Act of 1994.

The California Housing Partnership Corporation (CHPC) is a nonprofit technical assistance and training center created in 1987 by the California Governor and Legislature to assist in the preservation of the state's existing stock of affordable housing. Since its inception, CHPC has assisted community-based nonprofit organizations, local government agencies and tenant organizations to preserve thousands of units of housing for low-income families, seniors and individuals. CHPC is currently focusing much of its efforts on the HUD Title II and Title VI programs. We are so far assisting nonprofits and tenant organizations in approximately twelve complexes to acquire and preserve their buildings as affordable housing in perpetuity under these two programs.

While we applaud the ongoing efforts of Congress and HUD to design and implement a balanced and effective preservation program, we strongly oppose the following proposals in the current bill:

1. Decreasing the Federal Cost Limit from 120% to 100% of Fair Market Rent;
2. Eliminating grants to purchasers where the Federal Cost Limit is exceeded; and
3. Eliminating the Mandatory Sale provisions.

While these proposed changes are components of a cost reduction strategy, their effect could seriously undermine efforts to preserve the at-risk stock in California and other areas of the country with high real estate values, and, at the same time, shift an excessive burden to local governments. While it may be tempting to set funding caps in higher cost areas, it is precisely the high rental costs in this state that limit alternative housing choices for low-income families, thereby making preservation even more important. We believe that other changes to Title VI could produce cost savings without threatening the preservation of housing in high cost areas.

The attached analysis demonstrates that reducing the Federal Cost Limits cap from 120% of Section 8 Fair Market Rents (FMR) to 100% of FMR could potentially increase the percentage of eligible projects in California that exceed the Federal Cost Limit from a nominal number to nearly half of the inventory. Projects that exceed the cost limit will be unable to obtain loan amounts under the Section 241(f) program that fund the full costs of 95 percent of equity, plus rehabilitation and transaction costs. The reduced loan amounts will increase the non-funded gap required to fully



finance the acquisition and rehabilitation of a project. The increased subsidy gap must be filled by local or state funds, foundation grants, or a price reduction, all of which may be difficult or impossible to obtain. If a project is offered for sale and the purchase cannot be consummated due to lack of sufficient funding, the owner may subsequently prepay the mortgage and convert the project from low-income to market-rate housing.

Page 3 of the attached tables reveal the approximate "trigger point" at which a project of a particular Transfer Preservation Value would exceed the Federal Cost Limit at both the 120% and 100% of FMR formulas. The tables estimate the minimum values for projects in all metropolitan areas in California. (Please note these numbers are for general estimating purposes only, and may differ for specific projects.)

Using assumptions regarding such factors as interest rates, operating expenses, HUD loan balances and rehabilitation requirements based on typical projects, this table compares the Federal Cost Limit "trigger point" for a particular statistical area under the existing and proposed Federal Cost Limit formulas. Capping rents at 100% of FMR lowers the maximum potential rental income stream (Preservation Rents) for a project. The reduced potential income lowers the maximum 241(f) loan that can be leveraged, thereby reducing the maximum Transfer Preservation Value that a project can be appraised at before exceeding the Federal Cost Limits.

For example, in the Los Angeles area, a typical project would have to be valued at over \$89,208 to exceed the cost limit with a 120% of FMR cap, while a project valued at only \$67,573 would exceed the cost limit with a 100% FMR cap. This reduction in the "trigger point" increases the universe of projects which will exceed the Federal Cost Limit, thereby placing such units at far greater risk of conversion.

Page 2 of the analysis shows the appraised values of both Title II and Title VI projects for which owners are seeking 241(f) financing through TRI Financial Corporation or Bank of America. (Since Title II and Title VI projects are essentially identical from a real estate market perspective, Title II projects are included in this analysis to increase the sample size and therefore the accuracy of the conclusions.) After comparing this sample of project valuations to the calculations of the "trigger point" described above, it can be estimated that while 59 of the 60 sample projects would stay within the 120% FMR limit, 26 would exceed the Federal Cost Limit at 100% of FMR.

From this sample, it appears that approximately 43% of the inventory of prepayment-eligible projects in California could exceed the Federal Cost Limit under a 100% of FMR cap rather than a 120% of FMR cap. Since



there are approximately 26,000 units in California eligible for processing under Title VI, the proposed cost limit reduction places an estimated 11,000 units at high risk of conversion. Thus, 11,000 families could be displaced if purchasers cannot find funding to replace the HUD incentives repealed by the pending bill. We assume that this same situation will be found in other areas of the country where real estate values have accelerated in the past decade.

While LIHPRHA was a well-conceived and balanced solution to the looming prepayment crisis that threatened much of the county, this data reveals that the proposed change to the Federal Cost Limit formula could reverse the protections offered to tenants in many areas. If the formula change is implemented, a significant portion of the burden to preserve at-risk units will shift to already economically strapped local governments, or result in significant tenant displacement.

We understand the Administration's concern to operate housing programs in a more cost-effective manner. We believe, however, that other changes to the program currently being analyzed by HUD could reduce the federal government's burden without placing low-income households at risk.

**EFFECT OF PROPOSED REDUCTION OF FEDERAL COST LIMIT FROM
120% TO 100% OF FAIR MARKET RENT (FMR) UNDER TITLE VI (LIHPRHA)
STATE OF CALIFORNIA**

Page 1

Revised:

5/2/94

SUMMARY:

		No.	%
PROJECTS:	TOTAL PROJECTS IN SAMPLE	60	100.0%
	PROJECTS EXCEEDING FEDERAL COST LIMIT AT 120% FMR	1	1.7%
	PROJECTS EXCEEDING FEDERAL COST LIMIT AT 100% FMR	26	43.3%
UNITS:	TOTAL UNITS IN SAMPLE	7,676	100.0%
	UNITS EXCEEDING FEDERAL COST LIMIT AT 120% FMR	100	1.3%
	UNITS EXCEEDING FEDERAL COST LIMIT AT 100% FMR	3,465	45.1%

Prepared by: California Housing Partnership Corporation

**EFFECT OF PROPOSED REDUCTION OF FEDERAL COST LIMIT FROM
120% TO 100% OF FAIR MARKET RENT (FMR) UNDER TITLE VI (LIHPHA)
STATE OF CALIFORNIA**

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Revised:

5/2/94

SAMPLE TITLE II AND TITLE VI PROJECTS IN CALIFORNIA*

No. Units	City	Title II or VI	Appraised Value	Per Unit Value	Exceed Federal Cost Limit?	
					120% FMR	100% FMR
36	Baldwin Park	II	2,275,000	63,194	No	No
39	Calexico	II	1,580,000	40,513	No	Yes
100	Campbell	VI	10,668,324	106,683	Yes	Yes
24	Canoga Park	II	1,785,000	74,375	No	Yes
82	Canoga Park	VI	4,800,000	58,537	No	No
196	Chatsworth	VI	9,884,568	50,431	No	No
40	Davis	VI	1,816,500	45,413	No	Yes
101	Duarte	II	6,025,000	59,653	No	No
132	East Los Angeles	II	8,500,000	64,394	No	No
57	El Sobrante	VI	2,761,000	48,439	No	No
64	Fontana	VI	1,925,000	30,078	No	No
54	Gilroy	II	3,750,000	69,444	No	No
264	Hawaiian Gardens	II	18,000,000	68,182	No	Yes
100	Hanford	VI	3,075,000	30,750	No	Yes
80	Indio	II	2,880,000	36,000	No	No
268	Indio	VI	8,065,882	30,097	No	No
30	Jackson	VI	1,053,000	35,100	No	Yes
133	La Puente	II	7,650,000	57,519	No	No
280	Long Beach	II	19,500,000	69,643	No	Yes
248	Long Beach	II	17,400,000	70,161	No	Yes
120	Los Angeles	VI	4,000,000	33,333	No	No
40	Los Angeles	II	1,437,100	35,928	No	No
35	Los Angeles	II	1,740,000	49,714	No	No
16	Los Angeles	II	905,000	56,563	No	No
16	Los Angeles	II	960,000	60,000	No	No
24	Los Angeles	II	1,475,000	61,458	No	No
72	Los Angeles	II	4,770,000	66,250	No	No
120	Los Angeles	II	9,500,000	79,167	No	Yes
43	Los Angeles	II	3,300,000	76,744	No	Yes
16	Los Angeles	VI	810,000	50,625	No	No
132	Los Angeles	II	5,475,000	41,477	No	No
120	Marysville	VI	2,626,664	21,889	No	Yes
16	Mountain View	II	1,625,000	101,563	No	Yes
372	National City	II	17,412,000	46,806	No	No
152	Oxnard	II	10,000,000	65,789	No	No
60	Palm Springs	II	3,250,000	54,167	No	Yes
90	Petaluma	VI	4,961,444	55,127	No	No
378	Richmond	II	22,000,000	58,201	No	No
98	Sacramento	VI	4,053,000	41,357	No	Yes
140	Sacramento	VI	5,738,250	40,988	No	Yes
62	Salinas	II	2,506,095	40,421	No	No
160	San Diego	II	8,053,000	50,331	No	Yes
144	San Diego	II	7,344,400	51,003	No	Yes
240	San Diego	II	12,560,000	52,333	No	Yes
160	San Diego	II	8,476,000	52,975	No	Yes
168	San Diego	VI	10,000,000	59,524	No	Yes
262	San Diego	II	15,800,000	60,305	No	Yes
275	San Francisco	II	25,585,000	93,036	No	Yes
300	San Jose	II	18,400,000	61,333	No	No
400	San Jose	II	25,500,000	63,750	No	No
52	San Jose	II	4,400,000	84,615	No	Yes
26	San Jose	II	1,700,000	65,385	No	No
168	San Jose	VI	8,551,460	50,902	No	No
99	San Pedro	II	4,800,000	48,485	No	No
130	Santee	VI	6,940,000	53,385	No	Yes
106	Suisun	VI	4,719,006	44,519	No	No
72	Tracy	VI	1,937,770	26,913	No	No
152	Vallejo	II	7,400,000	48,684	No	Yes
154	Vallejo	VI	5,749,927	37,337	No	No
158	West Covina	II	10,000,000	63,291	No	No

*Sample based on 241(f) loan applications submitted by TRI Financial and Bank of America

Source: TRI Financial Corporation; Bank of America
Prepared by: California Housing Partnership Corporation

**EFFECT OF PROPOSED REDUCTION OF FEDERAL COST LIMIT FROM
120% TO 100% OF FAIR MARKET RENT (FMR) UNDER TITLE VI (LIHPRHA)
STATE OF CALIFORNIA**

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ASSUMPTIONS

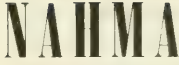
Average Bedroom Size (for FMR)	2 BR
Interest Rate on 241(f) Acquisition/Rehab Loan	8.50%
Mortgage Insurance Premium	0.50%
Annual Per Unit Operating Expenses	3,200
Annual Per Unit Replacement Reserves	400
Per Unit Existing HUD Section 236 Loan Balance	11,000
Debt Service on Existing HUD Loan	500
Project Occupancy	97%
Per Unit Rehabilitation Financed by 241(f)	7,500
Amortization (years)	40

	1994 2-BR FMR	Minimum Per Unit Transfer Pres. Value Required to Exceed Federal Cost Limit*	
Metropolitan Statistical Area		120% FMR	100% FMR
Los Angeles - Long Beach	864	89,208	67,573
Merced	531	39,178	25,882
Modesto	595	48,793	33,894
Oakland	815	81,846	61,438
Orange County	882	91,912	69,827
Redding	483	31,966	19,872
Riverside - San Bernadino	647	56,606	40,405
Sacramento	620	52,549	37,024
Salinas	764	74,184	55,053
San Diego	725	68,324	50,170
San Francisco	1004	110,241	85,101
San Jose	954	102,729	78,841
San Luis Obispo - Atascadero - Paso Robles	702	64,869	47,291
Santa Barara - Santa Maria - Lompoc	834	84,700	63,817
Santa Cruz - Watsonville	936	100,025	76,588
Santa Rosa	791	78,240	58,434
Stockton - Lodi	569	44,887	30,639
Vallejo - Fairfield - Napa	704	65,169	47,541
Ventura	909	95,968	73,207
Visalia - Tulare - Porterville	477	31,065	19,121
Yolo	624	53,150	37,525
Yuba City	452	27,309	15,991
Amador (non-metro)	590	48,042	33,268
Kings (non-metro)	484	32,116	19,997
Imperial (non-metro)	588	47,741	33,018

*Note: These numbers are for general estimating purposes only and are not based on project-specific operating, repair cost or loan balance data. The determination of whether a specific project exceeds the federal cost limit is conducted by HUD after a care assessment of these variables and is reported on Form 9607. Also note that this analysis does not look at the effect of Prevailing Market Rents in the cost limits test.

Prepared by: California Housing Partnership Corporation

(Mr. Houze)



National Assisted Housing Management Association

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NAHMA POSITION PAPER

SECTION 8 NEW CONSTRUCTION AND SUBSTANTIAL REHABILITATION

CONTRACT RENEWALS/EXTENSION

NAHMA members manage approximately one-half of the national inventory of Section 8 New Construction and Substantial Rehabilitation properties. The vast majority of these properties are "Communities of Quality", NAHMA's term for the best of privately owned, federally assisted housing. Communities of Quality combine professional management, constant maintenance and access to community services.

Section 8 properties, for the most part, are well built, well located, adequately financed and well managed. NAHMA believes that it is both prudent and important to preserve this quality housing for continued occupancy by low- and very low-income Americans. However, 20 year subsidy contracts are coming to an end. NAHMA encourages Congress and HUD to offer extended Section 8 contracts on terms that will be fair and acceptable to owners. Based on discussions with owners of NAHMA-managed Section 8 properties, NAHMA believes that the contract terms described here will be acceptable to most owners. In particular, we wish to call attention to a few key considerations.

First, there is an existing statutory requirement to notify residents one year prior to the expiration of the current subsidy contract. NAHMA encourages Congress to pass legislation in 1994 to provide for continuation of subsidy contracts so that the expiring contract notice can also contain a notice that Congress has provided continuation of assistance so that residents will not suffer when the current subsidy contract expires.

Second, because the Section 8 inventory covers a very wide range of property characteristics, resident profiles, financing vehicles, and is subject to a wide variety of local market conditions, NAHMA advocates a variety of extended contract alternatives so that each property with an expiring contract will be able to receive an offer that is fair to both the owner and HUD, and that is responsive to the needs of the property and its residents.

Third, owners of NAHMA-managed properties are concerned about the adverse income tax consequences of continued regulated operation of the property. During the extended contract period, Section 8 properties will generate increasingly large amounts of taxable income but likely will not generate commensurate cash flow. NAHMA believes that these tax issues must be resolved or large numbers of owners will be forced to decline extended subsidy contract offers in order to have the greater access to refinancing, sale, and other tax management approaches available to unregulated housing.



NAHMA believes that our suggested structure for the new subsidy contracts balances all of the competing needs which affect this very complex public policy issue and welcomes the opportunity to discuss these proposals in more detail.

CONSIDERATIONS

REGARDING THE CONTINUANCE/RENEWAL OF EXPIRING SECTION 8 CONTRACTS

I. Approach to Contract Renewals

1. Owner must give at least a one-year notice of intent to extend, otherwise HUD will prepare for non-renewal of the contract.
 - A. Residents receive certificates or vouchers upon contract termination, if owner does not renew.
 - B. As a protection for the continued occupancy by the current residents, the certificate/voucher would be at post-conversion property rents as long as resident stays in the property and it reverts to market rents (either increased or decreased) upon move to non-assisted housing. In cases where the certificate/voucher has higher rents, HUD could limit the time for the certificate/voucher based upon a clear and fully documented determination by HUD that sufficient vacant housing at lower rent levels is available in the community.
2. Renewal term must be for a length of time to facilitate long-term management decisions and reasonable financing options.
 - A. Renewal would be for five year terms, renewable for up to four additional five year terms at the Owner's option.
 - B. Statutory requirement that HUD offer renewal for not less than 20 years but with shorter Contract terms (similar to LMSA). Any annual rent increase due to otherwise be made if the Contract was not due to terminate would be applied to the renewal Contract rents.
3. The renewal process should commence early enough to be finished in a timely fashion to allow execution of the extended contract prior to the time notification to the residents is required.

II. Establishing Initial Contract Rents On The Extended Contracts

To establish extended contract rents, depending on the characteristics of the property and its local market, the owner selects from a three component rent setting methodology which has as its dual goals:

- 1) to provide a rent level which is sufficient to maintain properties as quality affordable housing resources in the least costly manner while,
- 2) to establish the initial rents through an efficient and timely method which is least burdensome in effort and resources to both HUD and owners.

1. Status quo methodology

- A. If current rent is equal to or less than 125% of the 50th percentile of the rents paid by recent movers in the metropolitan Fair Market Rent area (SMSA) located closest to the property, as determined by a statistically sound study, current rents would be initial rents under the extended contract.

2. Market rate methodology

- A. The owner prepares a market survey taking into account differences in amenities and services provided. In addition, the following differentials would be added to market rents to compensate for additional costs which occur in operating a HUD regulated project:

5% for operating an FHA insured (or State Agency financed) property

5% for the added regulatory burdens of operating a property with a project-based Section 8 contract

5% for operating a Family property

5% for operating a highrise or elevator property

These differentials are well known and have been long accepted by HUD in evaluating rents in HUD properties and include, but are not limited to, extra accounting costs, HUD automation requirements and paperwork burdens, tenant verification procedures, maintenance costs, insurance, provision for services, compliance with Section 504 as well as the higher debt service costs faced by HUD properties from Davis-Bacon and other initial requirements.

- B. HUD accepts owner's survey or prepares its own market survey. If HUD and owner studies are within 10% of each other, HUD will accept the owner's study. If HUD does not respond to owner's study within 45 days, HUD must accept the owner's study for setting rents.
- C. Otherwise, owner and HUD attempt to negotiate mutually agreeable rents based upon the market surveys.
- D. If the owner and HUD cannot agree, an arbitrator chooses either the last offer of the owner or the last offer of HUD. The arbitrator cannot compromise or split the difference.
- E. At any time during the process, up to the start of arbitration, the owner can choose the budget-based methodology.

3. Budget-based methodology

- A. If current or market rents are not sufficient for the owner to operate the property, or if the owner believes that the budget based method best meets the needs of the property, the owner would submit budget-based proposed rents to HUD. Budget-based proposals would be processed in accordance with HUD Handbook 4350.1, Chapter 7.
- B. In order to avoid an administratively burdensome appraisal-based process, an allowance for owner's profit (return) would be included in the budget-based rent calculation and calculated at 10% of 125% of the 50th percentile of the rents paid by recent movers in the metropolitan Fair Market Rent area (SMSA) located closest to the property, as determined by a statistically sound study. This procedure provides for effective cost savings to HUD whereby properties that may need special higher rent adjustments to offset neighborhood, environmental, or other problems will not automatically add profit on those expenses.
- C. Budget-based rents must be approved by HUD within 45 days from submission by the owner or are accepted as reasonable, and if applicable, are retroactive to the contract anniversary date.
- D. Refinancing incentives should be established to encourage debt reduction.

III. Annual Rent Adjustments After Initial Rents Are Set

NAHMA points out that this procedure eliminates the continuing need to review the property's rents for comparable rents when in the "status quo" or "market rate" methods.

1. Status quo

- A. Upon owner's application, property to automatically receive adjustments based upon the applicable or latest published Annual Adjustment Factor (AAF) applied at the anniversary date or, at the Owner's option, revert to budget-based rent procedure. Decreases in property rents may only occur to the extent of the reduction of debt service related to the refinancing of FHA insured mortgage loans.

2. Market rate

- A. Upon owner's application, property to automatically receive adjustments based upon the applicable or latest published Annual Adjustment Factor (AAF) applied at the anniversary date or, at the Owner's option, revert to budget-based rents. Decreases in property rents may only occur to the extent of the reduction of debt service related to the refinancing of FHA insured mortgage loans.

3. Budget-based

- A. Instead of required annual budget-based reviews, allow rents to increase automatically annually based upon percentage increases in the CPI-all urban consumers, applied to the non-debt service portion of the rent applied at anniversary date. Owner may request budget increase process in any given year. HUD would have the option to review the budget-based rents at each contract renewal (if short-term contracts) or each three years.
- B. Budget based rent increases become effective on the first of the month following 30 days after submission of the rent increase request.

IV. Tax Consequences

Owners who agree to continue operating their properties as low income housing will face increasingly burdensome tax problems due to "phantom" income which does not result in distributable cash flow. For owners who accept new or renewed subsidy contracts:

1. If the government fails to renew or provide subsequent subsidy all paper gains (phantom income and recapture) would not be taxable.
2. During the contract period, paper gains would not be taxable and the only reportable income would be that represented by distributed cash flow.

**WRITTEN TESTIMONY TO THE
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
ON THE
SUBCOMMITTEE'S CONSIDERATION OF
HR 3838, THE HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1994**

*Submitted by:
Pat Neal
President
California Association of REALTORS®
Los Angeles, CA
May 5, 1994*

I. Introduction

As President of the California Association of REALTORS®, the statewide trade association representing the interests of 114,000 California real estate licensees, I am grateful to have the opportunity to present C.A.R.'s perspectives on proposed legislative changes to the FHA Single-Family Mortgage Insurance Program.

C.A.R.'s members are involved in all aspects of the real estate business, including brokering and financing property purchases. It is the importance of the FHA program to homebuyers and real estate licensees alike that motivates C.A.R.'s interest in the FHA program.

II. HR 3838/Clinton Administration Proposals

A. FHA Loan Limits

California REALTORS® strongly believe the 1994 housing bill should be the vehicle for indexing of FHA loan limits to regional home sales prices. The Clinton Administration's proposed housing bill (Title III, Section 302) would tie the FHA limit to 85% of the Fannie Mae/Freddie Mac conforming loan amount. Based on the current conforming loan amount of \$203,150, this would increase the maximum FHA loan to \$172,675. We encourage the Housing Subcommittee and full Banking Committee to approve the Clinton Administration's indexing proposal.

Under the current maximum FHA loan of \$151,725, too many Californians are denied access to low-downpayment, low-closing cost FHA financing. The median home sales price in our state is \$180,380. In California's most-populated regions,

Testimony of the California Association of REALTORS®

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prices are even higher. In San Francisco, the median price is \$243,230, in Orange County its \$204,950 and in Los Angeles its \$184,250.

As a result of this price structure, thousands of Californians unable to make use of the FHA loan program must apply for financing in the private sector where underwriting ratios are not as favorable. Moreover, compounding the problem has been the behavior of the private mortgage insurance industry which has historically moved in and out of the California housing market and tightened underwriting standards, making it even more difficult for purchasers to obtain privately insured mortgages. The net result of the FHA's low loan limit and PMI company policies is that many potential moderate-income and first-time homebuyers are unable to obtain mortgage financing, denying them the opportunity to take advantage of the best buying conditions in a decade.

In our view, there is simply no compelling reason why home purchasers in California, especially first-time buyers, should not enjoy the wider access to FHA affordability benefits that would be provided through loan limit indexing. While some advocates of the status quo would suggest that larger loans might pose an additional risk to the FHA insurance funds, available evidence points to the opposite conclusion—that larger mortgages, vis a vis smaller balance loans, are less likely to experience repayment problems.

Importantly, expanding the market for FHA loans would also increase HUD's premium income and enhance the diversity, and hence the actuarial soundness, of the Mutual Mortgage Insurance Fund. In the final analysis, though, the reach of the FHA program should be broadened in high-cost states as a matter of fairness. With their tax dollars, Californians support HUD and its programs like taxpayers in the other 49 states; Californians should enjoy the same access to FHA financing that these taxpayers enjoy.

We strongly urge the Housing Subcommittee to approve the Clinton Administration loan limit indexing proposal.

B. Risk-Sharing

California REALTORS® are also in favor of the Clinton Administration's proposal to authorize HUD risk-sharing with state and local housing agencies on FHA-insured mortgages (Title III, Section 305). Legislation has already been enacted in California which would authorize the state's mortgage guarantee insurance agency--the California Housing Loan Insurance Fund (CaHLIF)--to participate in risk-sharing arrangements

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with HUD. Under the risk-sharing proposal advanced by the White House, FHA loan amounts up to the Fannie Mae/Freddie Mac conforming loan amount of \$203,150 could be jointly insured by CaHLIF and HUD.

Risk-sharing constitutes a financially responsible way to address the unique housing affordability problems of high-cost states. Under California's law, CaHLIF would guarantee the mortgage amount above the maximum FHA loan amount and therefore assume most of the loan's default risk. We believe, however, there will be only a minimal risk of losses under the program due to the dual requirement that CaHLIF underwriting standards be approved by HUD and thoroughly evaluated by rating agencies--Standard and Poors and Moodys--as they rate the CaHLIF bonds which will fund the risk-sharing program.

California REALTORS® urge the Housing Subcommittee to adopt the Clinton Administration's risk-sharing proposal.

C. Non-Judicial Foreclosures

C.A.R. is strongly opposed to the Clinton Administration's proposal to permit the Attorney General to pursue deficiency judgements against FHA borrowers in circumstances where non-judicial foreclosure sales bring a sales price less than the outstanding loan balance of the insured mortgage (Title VIII, Section 859).

California law expressly provides that lenders may not pursue deficiency judgements when they opt for a non-judicial foreclosure against a borrower in default. We believe that California law should be respected, and that HUD should not be allowed to pursue deficiency judgements in states where deficiency judgements are not permitted under state law.

Permitting lenders to look to the other assets of a borrower in the event of a deficiency may have the unintended affect of encouraging unsound underwriting practices by HUD mortgagees. In our estimation, California's anti-deficiency law fosters safe banking principles. Each real estate transaction must be approved or rejected on its own merits without regard to the availability of other assets to pay the proposed debt. If lenders are able to pursue these other assets, they may in fact make a loan which should not, on its own merits, be made.

California's anti-deficiency protections have worked well to create a real estate market that has been characterized by strong sales activity and steadily rising prices. The system also encourages lenders, where possible, to work out repayment difficulties

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with borrowers. We believe the Congress should respect California law on this issue, and that the Clinton Administration's anti-deficiency proposal should be rejected.

III. Additional Recommendations

Presented below are additional improvements to the FHA program which C.A.R. believes should be considered as Congress considers comprehensive housing legislation in 1994.

A. Loan Prepayments

C.A.R. believes the 1994 housing bill presents an opportunity to statutorily revise HUD policy on FHA loan prepayments, a policy we believe penalizes FHA borrowers. Specifically, HUD policy mandates that unless a borrower prepays a FHA mortgage on the first day of a month, mortgagees may charge borrowers interest through the next payment due date (through the first day of the month following the month in which the prepayment is received). C.A.R. believes interest should only be charged to borrowers through the date of loan payoff.

Under the prior administration, HUD indicated to C.A.R. that the FHA prepayment policy was a GNMA requirement. This response was puzzling because on VA loans, which are also securitized by Ginnie Mae, interest may only be charged through the date the loan payoff is received by the lender.

If a borrower happens to prepay his/her FHA mortgage soon after the first of the month, the interest a lender may charge can be substantial. For example, 28 days of interest on a \$150,000 mortgage at 10% would amount to well over \$1,000. This is a substantial amount of money, money which could be directed towards a subsequent home purchase. We urge the Housing Subcommittee to consider including in its housing bill language permitting lenders to only charge interest on FHA loan prepayments through the date the lender receives the prepayment.

B. MCC Underwriting

C.A.R. also believe this year's housing bill provides the opportunity to revise HUD underwriting policies on mortgage credit certificates. Under HUD policies, the tax savings produced by MCCs are added to the borrower's income in qualifying the applicant for a mortgage. We believe HUD's policy should be modified so that MCC amounts are subtracted from proposed monthly housing payments.

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HUD's treatment of MCCs differs from that of Fannie Mae and Freddie Mac. The housing GSEs both permit the MCC amount to be subtracted from the borrower's proposed monthly housing payment. While HUD and the secondary mortgage market treatment of MCCs both increase the net mortgage amount for which borrowers may qualify, Fannie Mae/Freddie Mac underwriting guidelines allow borrowers to obtain a substantially larger mortgage than does HUD's.

Our analysis shows that based on a \$100,000 sales price, subtracting the MCC tax savings from the borrower's housing payment would increase the mortgage amount for which the borrower may qualify by approximately \$14,800. This compares to only a \$4,400 increase in mortgage amount obtained by adding the MCC savings to the borrower's income. On other words, FNMA/FHLMC policy on MCCs increases the mortgage amount for which a borrower may qualify by almost three-and-a-half times more than HUD policy.

We believe there should be consistency in the underwriting policies of HUD, the FNMA and the FHLMC. We therefore hope the Housing Subcommittee will consider including in its housing bill statutory language directing HUD to modify its MCC underwriting guidelines so that MCC amounts are subtracted from proposed payments, not added to income.

C. Mortgage Insurer Disclosure

Finally, C.A.R. would recommend to the Housing Committee that statutory language be included in the subcommittee's housing bill requiring lenders to disclose to borrowers the name, address and phone number of the mortgage guarantee insurance company which will provide private mortgage insurance on the loan in question. We believe this is information to which consumers who are paying for the insurance are entitled.

We can envision at least two instances where awareness of their mortgage insurer may assist mortgage applicants/borrowers. The first would be at initial time of application when an applicant is informed that a loan application has been rejected by a private mortgage insurer. The knowledge of who the insurer was would allow borrowers, and their real estate agents acting on the borrower's behalf, to negotiate with the mortgage insurer on how the application could be resubmitted and approved.

Secondarily, knowledge of the particular mortgage insurer on a loan could help borrowers if they should experience repayment problems in the future and attempt to negotiate a short pay-off with their lender in lieu of a foreclosure. Since both the

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originating lender and mortgage insurer have to approve a short payoff, disclosure of the mortgage insurance company guaranteeing the loan, and the ability to negotiate with this party, becomes vital to the troubled borrower.

California REALTORS® urge the subcommittee to examine this issue and to consider including in its omnibus housing bill language requiring lenders to disclose to borrowers information on the mortgage insurer which will be insuring the borrower's mortgage. In the final analysis, as consumers are paying for this insurance coverage, this is information to which they are entitled.

IV. Conclusion

We thank you and the member of the Housing Subcommittee for considering the perspectives of California's real estate community as you move forward on housing legislation this year.

We are hopeful our testimony can be made part of the written record of the Housing Subcommittee's consideration of HR 3838 and related proposals.

If you have any questions concerning this testimony, please do not hesitate to contact Marcia Salkin (213-739-8272) or Phil Glynn (213-739-8318) of C.A.R. staff.

TESTIMONY FOR THE RECORD OF NEIL CHURCHILL

President, National Leased Housing Association

before the Subcommittee on Housing and Community Development
House Committee on Banking, Finance and Urban Affairs

May 5, 1994

The National Leased Housing Association is very concerned about Section 801 of the Housing Choice and Community Investment Act of 1994, which would significantly change the method of calculating Section 8 rent increases. Accordingly, I requested our counsel, Charles L. Edson of the firm of Peabody & Brown, to examine the question of whether HUD could constitutionally change the contractual method of determining rent increases.

I enclose for the record Mr. Edson's opinion wherein he states that HUD's proposed rent adjustments in Section 801 directly contravene the contractual requirements and thus constitute an abrogation of the contract or a taking of the owners contract rights.

We thank you for including the opinion in the record of the hearings.

PEABODY & BROWN

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May 2, 1994

Mr. Neil Churchill, President
National Leased Housing Association
2300 M Street, NW
Washington, DC 20037

RE: Constitutionality of Section 801 of the
 Housing Choice and Community Investment Act of 1994

Dear Mr. Churchill:

You have asked our opinion as the constitutionality of Section 801 of the Housing Choice and Community Investment Act of 1994 (the "94 Act"). That section amends Section 8(c)(2)(A) of the United States Housing Act of 1937 to provide:

"However, where the maximum monthly rent, for a units in a new construction, substantial rehabilitation, or moderate rehabilitation project, to be adjusted using an annual adjustment factor exceeds the fair market rental for an existing dwelling unit in the market area, the Secretary shall adjust the rent only to the extent that the owner demonstrates that the adjusted rent would not exceed the rents of an unassisted unit of similar quality, type, and age in the same market area, as determined by the Secretary."

Accordingly, under the proposal, the owner would have to satisfy HUD that any rent over the fair market rent for existing

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units is comparable to similar units in the area. Otherwise, no rent increase would be granted.

In making this proposal, HUD apparently is of the view that the matter is purely one of statute, and that Congress can amend the law as it sees fit. However, as HUD is well aware, this is a matter of contract between the owner and HUD and the governing provisions are set out in the Housing Assistance Payment Contract entered into by HUD and the owner at the time of the outset of the project.

The Contract Provisions

The usual contract between the owner and HUD concerning rent adjustments provides as follows:

1.9.b. Automatic Annual Adjustments
"(1) Automatic Annual Adjustment Factors will be determined by the Government at least annually; interim revisions may be made as market conditions warrant. Such factors and the basis for their determination will be published in the Federal Register..."(2) On each anniversary date of the Contract, the Contract Rents shall be adjusted by applying the applicable Automatic Annual Adjustment Factor most recently published by the Government. Contract Rents may be adjusted upward or downward, as may be appropriate; however, in no case shall the adjusted Contract Rents be less than the Contract Rents on the effective date of the Contract.

Accordingly, generally the owner's rents would be adjusted annually by applying the Automatic Annual Adjustment Factor. However, Section 1.9(d) of the contract further provides:

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1.9.d. Overall Limitation.
Notwithstanding any other provisions of this Contract, adjustments as provided in this Section shall not result in material differences between the rents charged for assisted and comparable unassisted units, as determined by the Government; provided that this limitation shall not be construed to prohibit differences in rents between assisted and comparable unassisted units to the extent that such differences may have existed with respect to the initial Contract Rents.

The contract mechanism is clear. The owner receives the Automatic Annual Adjustment unless HUD can demonstrate that such adjustments would increase an owner's rents over those for comparable units, taking into account initial differences between the assisted and comparable unassisted contract rents.

The validity of this interpretation of the contract is incontestable in that it has been the longstanding position of HUD, and it is consistent with the interpretation of the contract rendered by the Supreme Court of the United States.

As you are aware, questions involving Section 8 rent increases have been in litigation since about 1982. A key issue was whether the government could do project-by-project comparability studies to enforce the comparability clause of the contract, or could only take comparability into account in fashioning the Annual Adjustment Factors. The Ninth Circuit, in the Rainier View and Alpine Ridge cases, held that HUD could not perform project-by-project comparability studies but instead had to build comparability into the adjustment factor. Otherwise, the Ninth Circuit reasoned that the formula method contained in the contract would be meaningless. The Supreme Court in Cisneros v. Alpine Ridge Group (113 S. Ct. 1898, (1993)) rejected that view as follows:

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Reading s. 1.9.d's "overall limitation" as allowing rents caps based on comparability studies does not, as the Rainier View court supposed, "render the formula method authorized by the statutes and elected in the contract a nullity." *Ibid.* The rent adjustment indicated by the automatic adjustment factors remain the presumptive adjustment called for under the contract. It is only in those presumably exceptional cases where the Secretary has reason to suspect that the adjustment factors are resulting in materially inflated rents that a comparability study would ensue. Because the automatic adjustment factors are themselves geared to reflect trends in the local or regional housing market, theoretically it should not be often that the comparability studies would suggest material differences between Section 8 and private-market rents. (at p. 1904)

In so ruling, the Supreme Court adopted the position that has been maintained by HUD in every brief filed on this question in any court in which the matter has been litigated. (As you know, because of my heavy involvement in this litigation, I have had to read virtually every brief that has been filed.) A typical formulation of the government's position is found in our own law suit, National Leased Housing Association v. United States, that has been pending in the United States Court of Federal Claims since January of 1987. As the government stated in a 1988 brief filed in the action, addressed to the Rainier View decision:

Contrary to the panel's opinion, HUD's interpretation does not render the use of a formula a nullity, because Subparagraphs A and C of Section (c)(2)¹ are distinct,

¹/References are to Section 8(c)(2) of the United States Housing Act

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complementary provisions, the former preliminarily fixing rent adjustments for all assisted units, and the latter constituting a check to ensure that preliminary rents set under the AAAF formula do not exceed those actually charged for comparable unassisted units in the locality. That HUD elected to use the formula rather than the fair market rental "market survey" to establish the geographically broad presumptive rent levels under Subparagraph A is no way inconsistent with using narrow 'market surveys' to effectuate the comparability cap required by Subparagraph C.

Accordingly, the government in this legislation stands the contractual requirements on their heads. Instead of the Annual Adjustment Factor yielding the presumably right rent increase, with the comparability study the exception, HUD would ignore the factor increase and make comparability studies the rule.

The Initial Difference Issue

In addition, under the new Section 801, the owner would not receive an adjustment for the "difference in rents between assisted and comparable unassisted units to the extent that such differences may have existed with respect to the initial contract rents." HUD has never contested that the owner is entitled to this initial difference, although we are in litigation as to whether the initial difference should be the fixed dollar amount of the original initial difference, or be calculated on the basis of the original percentage difference. The new Section 801 does not take the initial difference into account at all.

We also call your attention to the proposed Section 804, which would reduce the adjustment factor by .01 in the cases where the tenant remains in place under the theory that there are fewer expenses involved in such cases. Again, there is absolutely no contractual justification for this arbitrary reduction of the Annual Adjustment Factor. The relevant language

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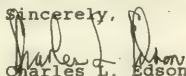
Mr. Neil Churchill
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of the Annual Adjustment provisions were cited at the start of this letter, and there is absolutely no authority to reduce the Annual Adjustment Factor when there has not been a move-out.

As you are aware, Section 801 of the Department of Housing and Urban Development Reform Act of 1989 in our view constituted a taking of up to 70% of the owner's justified rent increase, and this matter is still very much alive in the courts. Hopefully, Congress will not enact yet another Section 801 taking that can produce nothing but expensive litigation for all concerned and an ultimate defeat for the government's position. Under the leading cases of Lynch v. U.S. (292 U.S. 571 (1934)) and Perry v. U.S. (294 U.S. 330 (1935)), the Supreme Court held that the United States cannot abrogate or take a private party's contract with the government for the purpose of reducing expenditures, which is exactly the case here. The Court ruled that such action violated the takings and due process clauses of the Fifth Amendment of the United States Constitution.

It goes without saying that Congress should not pass legislation that is unconstitutional on its face.

Sincerely,



Charles L. Edson, Counsel
National Leased Housing Association

CLE/ldk

STATEMENT

of

SAVINGS & COMMUNITY BANKERS OF AMERICA

SUBMITTED IN CONJUNCTION WITH THE HEARING

of the

HOUSING AND COMMUNITY DEVELOPMENT SUBCOMMITTEE

of

U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

on

PROPOSED CHANGES TO THE FHA SINGLE-FAMILY PROGRAMS

of the

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

May 5, 1994

Savings & Community Bankers of America ("SCBA") welcomes this opportunity to submit testimony in conjunction with today's hearing on housing reauthorization issues. In particular, we would like to direct our remarks to increases in Federal Housing Administration (FHA) loan limits proposed in H.R. 4310, the Housing Choice and Community Investment Act of 1994, introduced by Chairman Henry Gonzalez on behalf of the Clinton Administration. With a membership of 2,000 savings and community banks, representing over \$800 billion of assets, SCBA is particularly interested in the proposed changes to the FHA single-family insurance program. As our members represent the largest pool of portfolio mortgage capital in the nation, SCBA is concerned about provisions in the new bill that would negatively affect our members' ability to continue to deliver mortgage credit to creditworthy, low-income borrowers, especially minorities, that the secondary market underserves.

SCBA's dominant concern is the attempt to increase again the FHA program's qualifying loan amounts. We believe this proposed change increases system default risk, thus unnecessarily exposing the FHA Mutual Mortgage Insurance (MMI) fund at a time when the fund is still far from meeting its statutory recapitalization mandate. The proposed increase also moves the program farther away from the creditworthy low-income borrowers it was designed to assist. We suggest that the current law be given a chance to approach the capital level mandated by law before risky new changes are made. SCBA is also concerned about the new risk-sharing and mortgage demonstration programs which the bill proposes. These experiments duplicate private lenders' efforts to serve the middle-income market, increase the

risk to FHA, and remove resources that could be better devoted by FHA to benefit creditworthy low-income borrowers.

HUD's Changes to the FHA Program Increase Risk and Move the Program Away from Less-Risky Low-Income Borrowers. The Administration's proposal to increase the qualifying limits for the FHA insurance program continues to move the program away from the lower-income borrower it was intended to serve. HUD proposes to increase the top loan amount from \$151,725 to \$172,675. HUD also proposes to move the FHA program further away from creditworthy low-income borrowers by increasing the regular limit for FHA loans from \$67,500 to approximately \$100,000, depending on the region.

Such an increase diverts limited subsidy resources away from the creditworthy low-income borrowers FHA should be serving. Community lenders have demonstrated that loans to individuals living in low-income areas FHA has underserved can be safe, sound, and profitable. In California's major urban areas, for example, where income levels are well below the state median, conventional lenders are making loans with considerable success while the FHA program can scarcely be found. In 1992, as a percentage of total loan originations, FHA-insured loans were a mere 2.8 percent of all loan originations in South Central Los Angeles and 0.8 percent in the City of Oakland. At a time when lenders are criticized for not making loans to those borrowers most in need, it is doubly ironic that conventional lenders' performance dwarfs the performance of the FHA program -- a subsidy that logically should benefit low-income borrowers -- in those areas. Increasing the FHA limit when eligible areas are already underserved represents a step backward by HUD from

current law. What is needed is a sustained FHA commitment to the creditworthy low-income borrowers who stand to benefit most from federal assistance.

Available Evidence Shows Increasing Loan Limits Means Increasing MMI Risk at a Time When the Fund is Not Yet in Sight of its Mandated Recapitalization Levels.

There is also a strong economic basis for targeting the FHA revitalization effort to the low-income borrower. HUD has not provided evidence that increasing the average loan size will reduce the risk to the FHA system. In fact, the only available evidence suggests that HUD's changes could increase risk to the system, contrary to HUD's statutory obligation. Available evidence shows that default risk rises as loan size increases. For example, the default risk on single-family home loans of \$150-\$175,000 (the range over which the FHA increase occurs) is 60 percent greater than the default risk on loans of \$50,000-\$100,000. (See Attachment.)

Risk is important because, under the National Affordable Housing Act of 1990, FHA's Mutual Mortgage Insurance (MMI) fund was obligated to meet a statutorily mandated capital standard of 1.25 percent by 1992. It did not. According to a recent study by Price Waterhouse of the FHA single-family program, the MMI was only one-third of the way to its goal at the end of Fiscal Year 1992. Adding risky new programs will not help the MMI fund meet its goal. As Price Waterhouse noted, the FHA will meet its mandated ratio only with the proviso that the "quality of borrowers and lenders remain at current levels" and "FHA premium and refund practices remain unchanged."

The good news is that the current FHA loan limits are working. The MMI fund is boosting its capital reserve: for the first time in 13 years, the 1992 "book" of business for the MMI fund was projected to generate adequate cash to pay all of its claims and add to the fund's recapitalization goal. Importantly, the 1992 "book" was the first to operate under the current standards. Maintaining these standards is vital if FHA's health is to continue to improve.

Importantly, MMI fund fiscal status is very susceptible to varying appraisal estimates and swings in the health of the economy. As the value of the underlying collateral for the mortgage loan shifts with changes in the economy, the fund balance can swing significantly. Furthermore, as interest rates move up from historically low levels, FHA's volume of seasoned refinance mortgages can be expected to decline in value.

Increasing the FHA Limits Means Less Help for Those in Need, Especially Minority Borrowers. Private-market lenders would like to make more FHA loans to lower-income individuals. Yet, as a result of HUD's proposal, lower-income borrowers will be displaced from the very program established to help them. Increased FHA loan amounts will divert limited subsidy resources to higher-income borrowers and away from creditworthy low-income borrowers. This change works to the particular detriment of minority applicants, who tend to be overrepresented among all low-income borrowers. At a time when regulated lenders are seeking to serve more minority and low-income borrowers, it is difficult to understand why HUD is reducing the targeting of a program for them.

HUD basically proposes to move the FHA program into a higher-income market which is already well-served, as evidenced by the vigorous mortgage rate and service competition that now exists. Rather than making the FHA program the province of the middle class, HUD should keep to Congress's intent and help those creditworthy first-time home buyers most in need.

In sum, current FHA loan limits have been shown to work: they are improving the health of the MMI fund. Existing reforms of the FHA program, which are now embodied in the statute, should be given a chance to work. Adding more risk to the system before the MMI fund makes more progress toward minimum capitalization levels is counterproductive.

This is not to say that the current system for FHA ceilings is perfect. But, under the proposed system of regional loan floors, the exceptions would still swallow the "national" default rule. By contrast, a uniform national index would allow flexibility in the overall limit and further concentrate FHA benefits to the lower-income end of the market in areas where home prices are above the national average. Currently, the maximum FHA loan amount is essentially 75 percent of the conforming loan limit for FNMA and FHLMC. Maintenance of this ratio, rather than boosting it to 85 percent as proposed, would provide better targeting for the FHA program.

Giving the current FHA loan limits, with perhaps more modest and uniform indexation, the opportunity to continue to turn the MMI fund around will keep FHA from getting

burned again by experimenting with potentially risky loan products to higher-income borrowers the program was not meant to assist.

Risk-Sharing and Experimental Mortgage Programs Increase Risk to FHA without Commensurate Benefit to Creditworthy Low-income Borrowers. SCBA is also concerned about two new programs introduced in the bill which shift risk from state and federal agencies to the American taxpayer, without any commensurate benefit to low-income homebuyers.

A new risk-sharing proposal targeted at higher-income borrowers would permit FHA and state housing finance agencies to co-insure loans up to \$203,150. These loans could go to individuals of unlimited income on homes of unlimited price.

California has been closely identified with the alleged need for this program. Yet the secondary market there already facilitates considerable competition among mortgage companies, thrifts, commercial banks, and other mortgage lenders. The refinancing boom is evidence of the vigorous product competition that defines this business. Ironically, at the same time the mortgage lending industry is being pushed by the government under the aegis of stepped-up Community Reinvestment Act obligations to provide credit to low-income applicants, HUD is retargeting its FHA programs, some of the best available means of providing needed housing subsidies to creditworthy low-income borrowers, to higher-income borrowers with less need.

The proposed bill would also have FHA insure experimental mortgage instruments without restriction as to the nature of the loans or the markets they are meant to serve. These loans could expose FHA to significant risk -- the bill proposes that these loans could comprise up to 10 percent of FHA's insured single-family volume in the prior year.

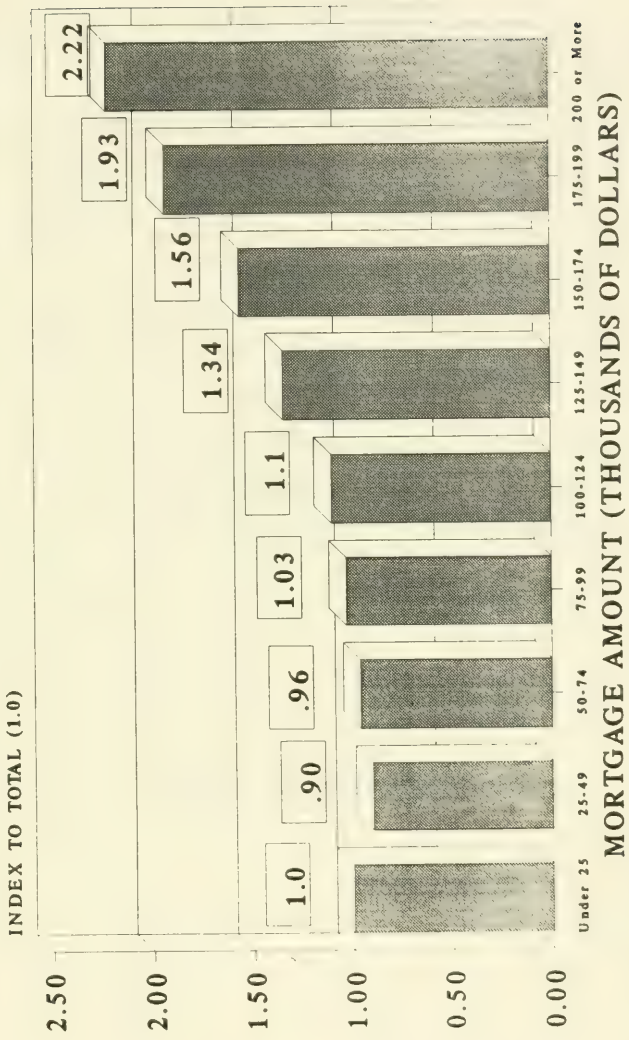
If HUD's commitment to housing the low-income borrower is to be met, then diverting limited resources to other programs would compromise HUD's ability to deliver credit to creditworthy borrowers most in need. These experimental programs offer an illusory short-cut: though they may reduce the up-front investment of the borrower, they may not cut down on the default risk over time. Balloon payment terms, which are one possible experiment, may permit more individuals to get into loans today by reducing initial monthly payments of principal and interest. But when the balloon amount comes due, recent history shows that defaults can be expected to increase, as not all peoples' expectations for promotion, salary advancement, home equity appreciation, and increasing wealth will be realized. There is no substitute for targeted assistance for conventionally structured loans to lower-income borrowers.

CONCLUSION

SCBA members would like to make more loans to lower-income individuals in need through the FHA program. But the program's increasing focus on riskier loans to higher-income borrowers not only moves the program from its original focus, but runs contrary to the MMI fund's statutory recapitalization requirement. Current law should

be given a chance to work; risky experimentation should not begin before the MMI fund is stabilized. Instead, FHA program resources should be targeted at creditworthy borrowers in need, rather than at HUD's proposed new, experimental loan programs and higher-income risk-sharing programs.

MICA EVER-TO-DATE CLAIMS INDEX U.S.: 95% LTV: POLICY YEARS 1981-90



CLAIMS THROUGH DEC. 31, 1992
SOURCE: MORTGAGE INSURANCE COMPANIES
OF AMERICA

APPENDIX

May 12, 1994

Opening Statement
Chairman Henry B. Gonzalez
May 12, 1994

Today we end the series of reauthorization hearings as we began them back in February -- with Secretary Henry G. Cisneros. We have heard from all the interest groups and public witnesses; and we have heard from the program assistant secretaries of HUD. Our witnesses have addressed H.R. 3838, the Housing and Community Development Act of 1994, which I introduced on February 10, proposals included in the administration's budget request, and proposals which have been included in the administration's bill, the Housing Choice and Community Investment Act of 1994, H.R. 4310, which I introduced by request on April 28. It is my intention to review these proposals carefully and to listen with interest today as we consider provisions from your legislation which we may combine with those of H.R. 3838, the reauthorization legislation this year.

Mr. Secretary, you have provided us once again with an ambitious agenda for which I commend you and your team.

I do want to remind you that the last four years have been quite productive legislatively -- the National Affordable Housing Act in 1990, the Housing and Community Development Act of 1992, the four demonstration programs, the Innovative Homeless Grant Program, the National Community Development Initiative or NCDI, the Pension Fund Demonstration, and the increase in the Moving to Opportunity Program and finally the recently enacted Multifamily Housing Property Disposition Reform Act of 1994 which includes a number of changes to the HOME program and the creation of the

economic development grant program as well as the critically needed property disposition reforms.

So I have concerns that the Department has a very full plate with a decreasing staff which in some cases is not well trained. I say this not to suggest that I do not support your initiatives. Indeed I believe we should be able to include many of the provisions, as is or as revised, in the reauthorization legislation.

However, I, and I expect others on the Subcommittee, still am interested in whether or not some of the major initiatives can be accomplished with specific changes to existing programs such as the CDBG program rather than creation of a new program; and whether or not establishment and funding of the new programs and initiatives will be at the expense, both financially and staff-wise, of the core programs such as public housing operating subsidies and modernization, the HOME program, section 202 housing, and incremental section 8 assistance.

We are still on target with our projections for mark-up and reporting the reauthorization bill before the July 4 recess. Your testimony and your insights into your proposed legislation and HUD's accomplishments in implementing the new programs already enacted will help us in this process.

I look forward to your testimony.

(5/12/94)

OPENING REMARKS - HON. MARGE ROUKEMA
HOUSING SUBCOMMITTEE

As you know Mr. Chairman, because of my Labor-Management Subcommittee's, mark-up of the Administration's health care proposals I have been unable to be here for many of our hearings on the reauthorization of our housing programs.

However, I wanted you to know that despite my absence, I have been keeping up with the issues and am prepared to work with you over the next few weeks, Mr. Chairman, in crafting another bi-partisan housing bill in the same manner we passed housing bills in 1990, 1992 and last year.

Of course, the success in developing a new housing bill will depend on several factors.

First, the overall authorization levels for the Department of HUD must strike a balance between the nation's housing needs and our current fiscal and budgetary situation.

Second, individual funding levels for programs like **HOME; Section 202 elderly; and public housing operating subsidy** must be restored to at least the FY94 appropriation levels.

Third, new programs must meet a clearly defined **need** and must address a recognized inadequacy in existing programs. The continuation of existing programs should also be measured by the results they have achieved.

Fourth, funding levels for new programs cannot come at the expense of proven, existing programs such as HOME and Sec 202.

If we can meet these guidelines, I believe we can fashion a housing bill we all can accept.

With that said, I want to welcome the Secretary here today to discuss his legislative initiatives.

It is regrettable that HUD's housing bill came to us so late in the hearing process and that we will have to make our tough decisions without the benefit of the comments and counsel of those who will ultimately be affected by whatever we do.

Despite this, I want to assure the Secretary that we will do our utmost to produce a housing bill which does reflect the Secretary's priorities as well as accommodates the Secretary's initiatives. We may not give you everything you want or the funding levels you are requesting, but we are committed to producing a good housing bill.

However, let me just make a few observations.

First, last year in introducing your intention to "reinvent" HUD you made it clear that HUD's first mission was to make its existing programs work better and that new programs would have to wait.

Yet, you are asking this Committee to authorize upwards of 18 new programs.

Now I have seen the Department's report entitled "The Transformation of HUD" in which you claim that you are eliminating some 59 programs. However, not asking for any funds for a program does not equate to the elimination of that program. Until we see actual legislation asking us to de-authorize a program, you will not have eliminated anything.

Second, and I want my Colleagues on the Committee to be clear about this. The tough funding choices you made in your budget were not choices between programs and declining HUD budgets. Since HUD was one of only a few beneficiaries of new spending authority, your choices were between existing programs which are seen as good programs, like HOME and Section 202, and the new programs you wanted.

Clearly, your request for \$500M for Enterprise Zones and \$500M for pension fund demonstrations is why the Section 202 housing program for the elderly was decreased by \$1 billion. It is clear that funding for HOME was sacrificed for the LIFT initiative.

These kinds of trade offs raise grave concerns. If your provisions are critically needed, they should be funded on their own merits and that we should not be "robbing Peter to pay Pauline".

Mr. Secretary, nobody on this Committee wants to deny you your vision for the direction in which HUD should go. We will work as diligently as we can to give you the necessary tools to reinvent HUD in order to make it a more effective, efficient and user friendly federal Agency.

Thank you.

LUIS V. GUTIERREZ
4TH DISTRICT, ILLINOIS
COMMITTEE ON BANKING,
FINANCE AND URBAN AFFAIRS

SUBCOMMITTEES
HOUSING AND COMMUNITY DEVELOPMENT
CONSUMER CREDIT AND INSURANCE

COMMITTEE ON
VETERANS' AFFAIRS

SUBCOMMITTEES
HOSPITALS AND HEALTH CARE
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OPENING STATEMENT
CONGRESSMAN LUIS V. GUTIERREZ
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
MAY 12, 1994

MR. CHAIRMAN, I AM GLAD TO WELCOME SECRETARY CISNEROS TO THIS HEARING AND I CERTAINLY APPRECIATE HIS CONTINUED EFFORTS TO WORK WITH THIS SUBCOMMITTEE IN DEVELOPING THE REAUTHORIZATION BILL. THE SERIES OF HEARINGS ON THIS LEGISLATION HAS BEEN VERY USEFUL AND I WOULD LIKE TO THANK THE CHAIRMAN AND HIS STAFF FOR THEIR HARD WORK AND DEDICATION TO THE MEMBERS OF THIS SUBCOMMITTEE.

THERE ARE MANY, MANY IMPORTANT PROVISIONS IN BOTH H.R. 3838 AND H.R. 4310. BUT, PARTICULARLY I HAVE SOME SERIOUS QUESTIONS ABOUT CERTAIN PROVISIONS IN THE ADMINISTRATION'S BILL. I AM CONCERNED ABOUT THE PUBLIC HOUSING PROPOSALS IN H.R. 4310 -- NOT ONLY BY THE CUTS IN MODERNIZATION AND OPERATING SUBSIDIES, BUT BY THE NEW DIRECT LOAN PROGRAM AND THE NEW LEASE PROVISIONS.

AS I STATED LAST WEEK, I BELIEVE THE PRESERVATION/PREPAYMENT PROVISIONS ARE MISDIRECTED. BASED UPON THE TESTIMONY LAST THURSDAY AND FROM CONVERSATIONS WITH INDIVIDUALS IN MY DISTRICT, THEY SERVE NO PURPOSE BUT TO SEVERELY DECREASE THE NUMBER OF

AFFORDABLE UNITS IN OUR CITIES WHILE AT THE SAME TIME DOING NOTHING TO CUT SPENDING.

I, LIKE MANY OTHERS, ALSO HAVE CONCERNS ABOUT THE CUTS IN CORE PROGRAMS LIKE HOME AND THE SUPPORTIVE HOUSING PROGRAM. THESE ARE PROVEN PROGRAMS THAT HAVE MADE A SUBSTANTIAL DENT IN THE AVAILABILITY OF AFFORDABLE HOUSING AND THE QUALITY OF LIFE FOR MANY AFFLICTED INDIVIDUALS.

I LOOK FORWARD TO WORKING WITH YOU MR. CHAIRMAN AND WITH SECRETARY CISNEROS TO CRAFT A STRONG HOUSING BILL THAT WILL HELP LIFT LOW-INCOME INDIVIDUALS OUT OF POVERTY, PROVIDE HOMEOWNERSHIP OPPORTUNITIES TO MODERATE-INCOME FAMILIES AND PROMOTE EQUAL ACCESS TO HOUSING IN THIS COUNTRY. THANK YOU, MR. CHAIRMAN.

**STATEMENT BEFORE THE
HOUSE BANKING COMMITTEE
SUBCOMMITTEE ON
HOUSING AND COMMUNITY DEVELOPMENT**

**Washington, DC
May 12, 1994**



The Housing Choice and Community Investment Act 1994

by

SECRETARY HENRY G. CISNEROS

Thank you, Mr. Chairman and members of the Committee, for giving me the opportunity to present our proposed reauthorization legislation, the Housing Choice and Community Investment Act of 1994. We are very grateful to you, Chairman Gonzalez, for your many years of forceful advocacy on behalf of affordable housing and better communities, and for the spirit of cooperation and partnership you have brought to working with our new team at HUD. We look forward to continuing our strong working relationship with you and your committee in the months and years ahead.

Mr. Chairman, the introduction of this bill comes at a critical time for our nation's housing and communities. In the past year the Administration has made solid progress on many key fronts. So far the economic recovery has created a net increase of more than two million new jobs, nearly double the private sector job growth of the previous four years, with a solid foundation to create at least another two million new jobs in 1994. After a decade of decline and stagnation, the national rate of homeownership rose significantly in 1993, creating more than 400,000 new homeowners, including many young first-time buyers. We are working hard to maintain this positive homeownership trend in 1994.

Yet along with these encouraging numbers and other signs of change for the better, we still face tremendous challenges. The President's new Federal Plan will soon report that about seven million people were homeless at some point in the last half of the past decade. Poverty rose in the 1980s to its highest level in two decades, and child poverty grew even faster -- more than

one out of five children are now poor, including two out of five Hispanic children and nearly one out of two African-American children.

About three-quarters of our nation's growing poverty population is concentrated in central cities and inner-ring suburbs. Some of these neighborhoods have become the focal points not just for joblessness but crime, violence, drugs, homelessness and inadequate housing, racial and ethnic segregation, redlining and economic discrimination. Today in America, a child dies of gunshot wounds every two hours. Youth unemployment in many of these neighborhoods is as high as 70 or 80 percent.

Our greatest challenge is to bring the people who live in these communities back into the mainstream of American life, by stimulating community reinvestment to create safe, healthy and economically viable neighborhoods where they now live, and by generating real job and housing opportunities that enable low-income residents to choose where they live and work throughout metropolitan areas.

Mr. Chairman, our nation can no longer afford to follow the troubled course of the past decade. We must change course, as we have begun to do in the last year and a half, and breathe new life and hope into distressed communities and revive the economic fortunes of cities and suburbs alike.

Changing course means abandoning failed government policies that contributed to the current crisis by concentrating very-low-

income families in dense, high-rise public housing projects and by discouraging poor people from seeking work. It means abandoning lending practices which have cut off the flow of private capital to poor communities. It means changing the way we think about how federal, state and local government, cities and suburbs, and the public and private sectors relate to each other.

The growing difficulties of too many communities has fueled the belief that there is no hope of reversing course. But hope is sprouting all around us:

- In Baltimore, a group called Community Building in Partnership is transforming the Sandtown-Winchester neighborhood by improving health care and education, creating jobs and businesses, removing abandoned housing and building 300 affordable homeownership townhomes.
- In Louisville, the Russell Partnership is changing one of the nation's ten most impoverished urban neighborhoods into a beacon of hope and opportunity, creating 400 new jobs and cutting the crime rate in half. The Louisville Housing Authority has successfully turned public housing in the neighborhood into private homeownership for low-income residents.
- In Chicago, the "Gautreaux" initiative -- the model for HUD's Moving to Opportunity program -- has successfully enabled more than 4,500 low-income families to move from inner city poverty to suburban communities. In many cases, these families have successfully shifted from welfare to

work and found better schools, safer streets, higher incomes, and socially integrated lives for their children.

● In Portland, Oregon, city and county officials have opened the doors to self-sufficiency for homeless people through a program which combines alcohol and drug abuse treatment, and mental health counseling with employment opportunities.

The Housing Choice and Community Investment Act of 1994 builds on these and many other success stories. It is informed by an understanding that real changes touching people's lives happen at the community level, and that the federal government's role must be to support and facilitate self-sustaining community-based partnerships for change. It is reinforced by HUD's commitment to pay special attention to meeting the needs of the poorest and most vulnerable people in our society, and coordinating federal efforts to meet those needs. Most importantly, it is animated by two fundamental principles that shape our legislation: choice for people and investment in communities.

Choice for people

In America, people should be able to live and work wherever their abilities and dreams can take them. The Housing Choice and Community Investment Act of 1994 will enable Americans to realize their full potential through a range of initiatives to help people move from welfare dependency to self-sufficiency, from unemployment to productivity, from homelessness to stable lives in permanent housing, from rental housing to homeownership, and

from isolated islands of poverty to the wider mainstream of American economic life.

Investment in communities

People must take responsibility for their own lives, but to do that, they need good schools for their children, safe streets and public spaces, affordable housing, and job opportunities. The Housing Choice and Community Investment Act of 1994 supports grassroots, community-based efforts to promote public and private investment in housing, businesses, physical improvements, and social services to transform distressed communities into places where people can lift themselves economically and improve their lives.

For more than a decade, the U.S. Department of Housing and Urban Development stood on the sidelines while people and communities across the country struggled for survival. The Housing Choice and Community Investment Act of 1994 will put HUD back in business as a force for positive change in America.

OVERVIEW OF THE KEY PROVISIONS OF THE HOUSING CHOICE AND COMMUNITY INVESTMENT ACT OF 1994

The Housing Choice and Community Investment Act of 1994 would authorize \$59 billion over the next two fiscal years for HUD's housing and community development programs. The Act establishes a strong foundation for implementing the President's housing and community investment agenda.

Mr. Chairman, five central priorities -- reducing homelessness, turning around public housing, expanding and preserving affordable housing and homeownership, ensuring fair housing for all, and empowering communities -- underlie our 1994 legislation.

Priority One: Reducing Homelessness

Throughout the 1980s and early 1990s, the number of homeless people on America's streets steadily increased. In the absence of any large-scale federal commitment to confront this problem, local governments and nonprofit groups were left to deal with it alone. The result was an ad hoc, fragmented system of soup kitchens and emergency shelters which addressed the symptoms rather than the causes of homelessness. This approach has not solved the problem.

The Housing Choice and Community Investment Act of 1994 puts the federal government in business as a leader and full partner in local communities' efforts to reduce the number of homeless Americans on their streets.

The Act:

- * **Would double federal support for HUD homeless-assistance initiatives.** More than \$1.7 billion would be authorized for homeless assistance in fiscal 1995, including \$100 million for special programs by local governments through our Innovative Homeless Fund.
- * **Creates a new approach to homelessness.** The current patchwork quilt of food banks and emergency shelters would

be replaced by a "continuum of care" which addresses the specific needs of homeless individuals and families -- for job training and counseling, drug, alcohol and mental health treatment, and other services -- and moves them from the streets to permanent housing. Existing McKinney Act homeless programs would be reorganized to give local governments the power to design and implement comprehensive strategies that meet local homeless needs.

*** Gives homeless people permanent housing.** As the final component in the continuum of care strategy, the Act would provide rental assistance to 15,000 formerly homeless individuals and families.

Priority Two: Turning around public housing

Over the past several decades, federal policies have transformed too much of our public housing into "warehouses for the poor." Various requirements and practices have led to the concentration of very low-income families in dense, high-rise housing, in many cases discouraging residents from working.

Federal regulatory restrictions and micromanagement have frequently stifled local creativity and innovation. For example, public housing authorities have been compelled to use their modernization funds to renovate deteriorated, high-risk buildings even where it would be cheaper to demolish and replace these buildings with economically integrated, well-designed, small-scale, affordable housing. We have increasingly lost sight of the original goal of public housing -- to create stable, healthy,

mixed-income neighborhoods.

The Housing Choice and Community Investment Act would establish the foundation to transform the public housing program. The collective impact of these legislative initiatives could literally "change the urban landscape" by replacing high-rise buildings and overly concentrated developments with safe and proud communities.

The Act:

* **Replaces distressed public housing.** The Act dramatically increases the resources available for public housing authorities to redesign and replace the nation's most deteriorated public housing. HUD has already committed \$1 billion under our new HOPE VI program. The 94 Act would fundamentally improve the modernization program by allowing funds to be used for demolition and replacement housing; and, for the first time, enabling public housing authorities to collectively borrow billions of dollars against future modernization funds, and leverage these resources with other public and private investments.

* **Fights crime.** Community policing, youth recreation and education, and other anti-crime activities would be encouraged and supported in Community Partnerships Against Crime, an expansion of the existing Public Housing Drug Elimination Grant Program and important complement to our new Operation Safe Home law enforcement efforts. COMPAC would encourage partnerships between residents, management,

police, and surrounding neighborhoods. Other anti-crime initiatives include permission for local public housing authorities and owners of HUD-assisted housing to ban guns in their buildings through lease provisions.

*** Makes work pay.** Rent rules would be substantially revised to ensure that unemployed public housing residents who obtain a job or participate in employment training programs will not pay higher rent for at least 18 months. Rent increases for working families would be limited to market rates, providing an incentive for them to remain as residents. Also, admission rules that restrict public housing primarily to very-low-income people would be modified to permit greater income diversity and include more working families among residents.

*** Promotes jobs for residents.** The Act would encourage jobs and small business opportunities for low-income residents. Real enforcement of Section 3 of the 1968 Housing Act, for the first time since its passage, is designed to enable public housing residents to share in the economic benefits of HUD-generated construction and services contracts. Economic Opportunity grants and Family Investment Centers would provide public housing residents with job training, placement, and other services. Residents would receive greater support for community organizing through the Tenant Opportunity Program, for which funding would be more than tripled.

Priority Three: Expanding Affordable Housing

Decent, affordable housing is essential to healthy communities, and a vital goal of public policy. For much of the last decade, HUD withdrew from its responsibility to promote affordable rental housing and affordable homeownership.

The Housing Choice and Community Investment Act puts the Federal Housing Administration back in the business of promoting affordable housing production and opens the doors of homeownership to Americans who until now have been locked out. The Act fosters new partnerships for housing production between federal, state and local governments, private business and nonprofit groups. The Act:

- * **Opens doors to homeownership.** The Act would make \$100 million available through the National Homeownership Trust Fund Demonstration for down payments, closing costs, second mortgage assistance and other help for first-time homebuyers. It would also make no-down payment financing available to low- and moderate-income buyers who purchase homes in urban revitalization areas. To support the success of these initiatives, the Act would more than quadruple funding for homeownership counseling for renters seeking to make the transition to buying a home.

- * **Puts FHA back in business.** The Act would raise the maximum FHA mortgage amount from 152,000 to \$172,000 in high-cost areas, and raise the basic mortgage limit in most areas of the country based on a variable formula. Together these

changes will increase affordable home financing opportunities for approximately 85,000 American households. Also, Price Waterhouse has determined that raising the loan limits will improve the economic soundness of the FHA insurance fund. Other provisions of the Act would allow for greater flexibility and experimentation with new mortgage insurance products, allowing FHA to reclaim its role as an innovative leader in the nation's mortgage markets.

*** Fosters partnerships.** The Act would authorize more than \$500 million -- a fivefold increase over the money appropriated by Congress for this initiative in 1994 -- to leverage billions in pension fund and other private and public investment in affordable rental housing. The Act would also enable state housing finance agencies and government-sponsored enterprises to undertake joint risk-sharing financing efforts with the FHA.

Priority Four: Enforcing Fair Housing

To fully pursue a better life for themselves and their children, Americans must have the opportunity to live in neighborhoods of their choice. To lift themselves to better economic futures, communities must have unfettered access to private and public investment.

For too long, the federal government failed to enforce laws guaranteeing all Americans freedom from discrimination in housing and lending markets, instead supporting programs which concentrated poor people in separate communities where they

became isolated from their fellow citizens. Today, the federal government is actively ensuring that no one is barred from affordable housing or loan opportunities because of discrimination, that no communities are unfairly denied the capital they need for economic development, and that all Americans enjoy real housing choice.

The Housing Choice and Community Investment Act:

* **Promotes real housing choice.** The Act would overhaul Section 8 rental assistance to give low-income families a meaningful opportunity to choose where to live throughout metropolitan areas. It would authorize \$149 million for the Choice in Residency program, providing intensive counseling, housing search assistance, and other services to thousands of additional recipients of tenant-based assistance.

* **Expands fair housing and fair lending enforcement.** The Act would significantly expand funding for state and local governments and nonprofits that assist the federal government in enforcing fair housing and fair lending laws, including metropolitan-wide assisted housing demonstrations. It also would give HUD resources to expand federal oversight of fair lending violations and insurance redlining.

* **Provides rental assistance for the disabled.** For the first time, 5,000 Section 8 rental assistance certificates would be set aside exclusively for low-income people with disabilities.

Priority Five: Empowering Communities

The federal government has a constructive role to play in community economic development -- marshaling and coordinating resources, serving as a catalyst and facilitator, and in all cases, supporting and strengthening community-based development efforts.

Federal initiatives must promote community solutions to community problems, building on grassroots efforts and expanding economic opportunities for neighborhood residents. The Housing Choice and Community Investment Act:

- * **Creates jobs.** The Act would authorize a series of initiatives to give communities the tools they need to generate economic development activity in low- and moderate-income neighborhoods. The Zone Economic Development Initiative would complement the Administration's ambitious Empowerment Zones and Enterprise Communities initiative, authorizing \$500 million for community-based economic development activities in these targeted areas.

Neighborhood LIFT would authorize \$200 million for neighborhood-based economic development activities such as retail, commercial, or mixed-use projects. The Act would also authorize \$150 million in grants to encourage local governments to use HUD's Section 108 loan guarantees for collectively borrowing up to \$2 billion annually for economic development projects. This program is expected to leverage an additional \$500 million in private-sector

investment in community economic development.

*** Brings resources to the community.** HUD has already begun creating partnerships with communities through a new comprehensive approach to planning; the Act would provide resources to carry out these plans. It would continue full funding for the Community Development Block Grants program, which we believe is essential for local revitalization efforts to succeed. The HOME Investment Partnerships would be reauthorized at \$1 billion, and would include a new loan guarantee program to help localities leverage significant additional resources for affordable housing.

*** Promotes grassroots efforts and regional collaboration.** A new \$150 million Community Viability Fund would build the capacity of community-based groups and institutions, support the design and development of public amenities, encourage strategic neighborhood and metropolitan planning, and strengthen the citizen participation that enhances community stability and growth.

Mr. Chairman, the Housing Choice and Community Investment Act also contains many provisions to further increase budget savings and program efficiency -- through administrative reforms, program reductions, faster recapture of unspent grant funds, tougher enforcement measures, and stiffer monetary penalties against corruption and abuse by HUD clients. These proposals support HUD's other key priority: **Bringing excellence to management.**

In order to make fully effective our proposed legislative changes in existing programs and our new initiatives, the Department in the past year has designed and implemented a very ambitious reinvention plan. We have reorganized our headquarters and field structure, consolidated, streamlined, and eliminated many of our operations and programs. We are substantially improving our management and service delivery to our customers, and making HUD much more entrepreneurial and productive. Our recently released report, The Transformation of HUD, outlines this consolidation and streamlining strategy in considerable detail:

- We are radically changing our core programs and policies to make them responsive to communities' needs, rather than impediments to change.
- We are identifying new tools that enable us to fully participate in today's housing finance and community development arena.

Mr. Chairman, I recognize that some people say that HUD has too many programs and we have not done enough through our legislative and budget priorities to consolidate and streamline our operations. This is simply untrue. As the HUD Transformation Plan explains, the bulk of our efforts and resources are concentrated in 17 core areas, with a total of 50 active programs. And as the plan details, we are working aggressively to reduce the total number of separate programs. For example, the Department is currently proposing to eliminate

or consolidate 59 separate programs, and we are intensively reviewing an additional 47 programs for termination or for consolidation and streamlining.

Mr. Chairman, some people also suggest that HUD pays too much attention to small initiatives to the neglect of our core programs. This assertion is fundamentally incorrect. The majority of our resources are focused on 10 key program areas to which we devote a great deal of attention. The Housing Choice and Community Investment Act will enable the Department to further consolidate, streamline, and strengthen its most important core programs. Indeed, in each case we have made or are proposing major changes to improve program operations:

- In public housing development, we are increasing flexibility for leveraging private dollars and promoting economic integration.
- In public housing modernization and HOPE VI we are making significant changes to use these programs to build replacement housing and rebuild distressed communities.
- In public housing operations, we are revising rent and preference rules to create work incentives for residents and deregulating to create efficiency incentives for housing authorities with good management.
- We are consolidating Section 8 certificates and vouchers and initiating major counseling efforts to expand residential choice.
- We are streamlining CDBG and HOME to make them more user

friendly, increase HOME's usage, expand CDBG for economic development, and enable loan guarantees to leverage both programs.

- We are expanding the budget for McKinney and other homeless initiatives and consolidating programs to increase flexibility and innovation.

- For existing FHA loans and properties, thanks to your help Mr. Chairman, we now have the Multifamily Property Disposition Reform Act providing greater flexibility, and we are moving aggressively to generate new partnerships and strategies, including selling foreclosed homes for low- and moderate-income homeownership.

- For new FHA single-family and multifamily mortgage insurance, we are proposing to fund the National Homeownership Trust, expand risk-sharing arrangements, and take many other actions to put FHA back in business.

Mr. Chairman, I also understand that some people claim that HUD should not be proposing any new programs. To anyone who holds this view, we respectfully disagree. In many cases it is absolutely vital to create new, targeted initiatives to meet particular needs that are not otherwise being met. Federal assistance can play a vital catalytic role in stimulating private investment, state and local and community-based efforts. We believe that the new initiatives your committee authorized last year in the HUD Demonstration Act, for pension fund investment in affordable housing, for innovative homeless strategies, for

capacity building of community development organizations, and for Moving to Opportunity, are perfect examples of meeting important new needs in well targeted ways.

Mr. Chairman, we feel just as strongly and positively about the new initiatives in our 1994 reauthorization as we do about the HUD Demonstration Act. Our legislative proposals to authorize several new programs in the 1994 Housing Choice and Community Investment Act are carefully designed to rapidly achieve visible and meaningful results in creating more affordable housing, more job opportunities, safer and healthier communities.

Mr. Chairman, when I see that nine million Americans lack affordable, safe, and decent housing, when I see thousands of young people hanging out on street corners for lack of jobs, and when I see these same youth shooting each other for drug money and gang pride in Chicago's Robert Taylor Homes, I know that the woman, tired of the violence and poverty was speaking the truth when she touched my arm and said "let's make it stop." It is time to act. We believe this legislation -- for Housing Choice and Community Investment -- will make a profound difference in people's lives. We will work with you to make that difference.

Thank you.

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QUESTION FROM CONGRESSMAN HERBERT C. KLEIN TO
HUD SECRETARY CISNEROS

May 12, 1994, hearing held by the Subcommittee on Housing and Community Development, entitled "H.R. 3838, Housing and Community Development Act of 1994" (reauthorization and H.R. 4310, the Housing Choice and Community Investment Act of 1994)

Mr. Secretary, New Jersey is one of the sixteen states eligible to participate in the Family Unification Program. First started in 1990, this program has received one year of funding thus far and sets aside Section 8 housing assistance to families whose children are at risk of entering or remaining in foster care primarily because of inadequate housing or homelessness.

Five public housing agencies in New Jersey, including one located in Essex County which is in my Congressional District, currently participate in this program. It is estimated that at least 2,700 children in New Jersey face imminent placement in foster care or have already been placed into foster care primarily because of the unavailability of adequate housing. Approximately 987 of that 2,700 number live in Essex County. At least 51 families have been kept together or reunited in my state because of the success of the Family Unification Program.

Last year, this program received \$77 million in appropriated funds, and Chairman Gonzalez' legislation authorizes \$107 million in FY 1995 and \$110 million in FY 1996. Regrettably, your bill recommends no funding for the Family Unification Program.

I realize that your top priority is the urgent need to address the homeless crisis, but it seems to me that this program does just that. Can you give us some indication as to why there are no funds requested by the Administration for the Family Unification Program?

Response from Secretary Cisneros to

Question from Congressman Herbert Klein

Question:

Can you give us some indication as to why there are no funds requested by the Administration for the Family Unification Program?

Response:

As you know, the Family Unification Demonstration Program has been funded by Congress for the past two years and will assist nearly 3,000 families. The Department has an additional \$77.4 million in FY 1994 funding for the Family Unification Demonstration and expects to publish a Notice of Funding Availability in the summer of 1994. The Department has decided not to request new funding for the Family Unification Demonstration Program since the funds for Fiscal Years 1992, 1993 and 1994 provide a sufficient group of participants to determine whether the program will be able to achieve its purpose.

Public housing agencies (PHAs) have the authority under current Federal law to undertake a family unification program without the necessity for new funding from HUD. This allows any and all PHAs to participate in the reunification of families through the use of local preferences in their administrative plans. The program can be expanded well beyond the demonstration, since the demonstration is limited to PHAs in 16 specific states identified by Congress and HUD. The Family Unification Demonstration funding limits the scope of the program, whereas PHAs can establish their own programs with larger set-asides. PHAs have the discretion, under their own family unification set-asides, to establish relationships with numerous organizations, including non-profits in addition to the public child welfare agency, and are subject only to the normal Section 8 program rules and fair housing laws.

ELIZABETH FURSE

1ST DISTRICT, OREGON

COMMITTEES:BANKING, FINANCE
AND URBAN AFFAIRS**SUBCOMMITTEES:**HOUSING AND COMMUNITY DEVELOPMENT
CONSUMER CREDIT AND INSURANCE**MERCHANT MARINE AND FISHERIES****SUBCOMMITTEES:**ENVIRONMENT AND NATURAL RESOURCES
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QUESTIONS FROM REPRESENTATIVE ELIZABETH FURSE

TO SECRETARY CISNEROS

SUBCOMMITTEE ON HOUSING HEARING MAY 12, 1994

1. I understand that there are a good deal of residual receipts in the so-called "new reg." projects. Is there an accurate estimate as to how much money these residual receipts represent? How could we find a way to use these receipts? What, in your opinion, would be the best way to use these receipts--in rent reduction, in project restoration, or what? What would be the easiest way to re-invest these funds?

2. There is talk about a somewhat forced extension of Section 8 twenty year contracts, and I am wondering if you feel that a mandatory approach is the best one? And could you also discuss the legal problems that would occur if you did force an owner to stay in the contract after its twenty year expiration?

Responses from Secretary Cisneros to

Questions from Congresswoman Elizabeth Furse

Question 1:

I understand that there are a good deal of residual receipts in the so-called "new reg." projects. Is there an accurate estimate as to how much money these residual receipts represent. How could we find a way to use these receipts? What, in your opinion, would be the best way to use these receipts--in rent reduction, in project restoration; or what? What would be the easiest way to re-invest these funds?

Response:

Since residual receipts are project-specific, they are reported only on the annual financial statements for each property under a Section 8 HAP contract. The Department does not collect those data on a uniform basis.

As you are aware, the residual receipts are remitted to the Secretary upon expiration of the HAP contract. Unless otherwise specified in the law, the funds are considered subsidy overpayments which are recaptured and returned to the Treasury.

HUD believes that possible alternatives could be to have the government's share used either to mitigate future rent increases or as a fund to meet unexpected capital needs.

Question 2:

There is talk about a somewhat forced extension of Section 8 20-year contracts, and I am wondering if you feel that a mandatory approach is the best one? And could you also discuss the legal problems that would occur if you did force an owner to stay in the contract after its 20-year expiration?

Response:

The Department endorses a voluntary program for both the owner and the government. For example, the government should have the option of not entering into a new contract with an owner who has repeatedly violated the contract or regulations or if the rents proposed for the new contract are unreasonably high.

A mandatory program, where the owner would be required to enter into a new contract, would raise serious legal questions on the issue of "taking" of property.

(Questions to HUD Secretary Cisneros)

Subcommittee on Housing
Hearing on May 12, 1994
Questions Submitted by Congresswoman Pryce
for the Record

1.) HUD's proposals contain a provison to increase the mortgage insurance premium (MIP) for FHA's multifamily housing projects from half of a point to one point. I am concerned that this increase will make FHA multifamily too expensive and the lender of last resort. In addition, I am concerned that this increase makes it more difficult to provide insurance for low and moderate income projects. Mr. Secretary, what are your thoughts on this situation?

2.) Mr. Secretary, what ideas does HUD have to even out or reduce section 8 renewal needs? How will these ideas, if implemented, affect housing agencies, housing owners that receive project-based section 8 assistance, and assisted households?



Deborah Pryce, Member of Congress

Responses from Secretary Cisneros to
Questions from Congresswoman Deborah Pryce

Question 1:

HUD's proposals contain a provision to increase the mortgage insurance premium (MIP) for FHA's multifamily housing projects from half a point to one point. I am concerned that this increase will make FHA multifamily too expensive and the lender of last resort. In addition, I am concerned that this increase makes it more difficult to provide insurance for low and moderate income projects. Mr. Secretary, what are your thoughts on this matter?

Response:

The increase in the premium could increase required sponsor equity or require the sponsor to rely on other debt and equity sources or seek other credit enhancement to make the project feasible. The increase is designed to help reduce credit subsidy needs during a time of budget constraint.

Question 2:

Mr. Secretary, what ideas does HUD have to even out or reduce Section 8 renewal needs? How will these ideas, if implemented, affect housing agencies, housing owners that receive project-based Section 8 assistance, and assisted households?

Response:

HUD could support an approach to a renewal program which included authority to cap rents so that the Secretary has the option of rejecting a contract if it's too costly. Where rents are too costly, owners will likely not be impacted by a decision not to renew, especially if they feel they can obtain the proposed rents in the market place. In addition, HUD believes it would be worthwhile considering including the authority to utilize the units and budget authority for the expiring contracts in other project-based projects in the same market area.

It is probable that housing agencies would administer vouchers, if available, offered to eligible tenants upon contract expiration, and that some tenants may eventually be obligated to move. In this regard, reasonable relocation benefits for displaced residents should be available.



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
THE SECRETARY

WASHINGTON, D.C. 20410-0001

April 26, 1994

Honorable Thomas S. Foley
Speaker, United States House of Representatives
Washington, DC 20515

Dear Mr. Speaker:

I am pleased to transmit to you the "Housing Choice and Community Investment Act of 1994." For the past several months, the department has been working with the Office of Management and Budget, key Congressional Committees and various housing and community development groups on the preparation of this authorization bill.

This legislation would authorize \$60 billion over the next two fiscal years for HUD's housing and community development programs. The legislation is focused on the five central priorities governing HUD's community investment agenda: reducing homelessness, turning around public housing, expanding affordable housing, enhancing fair housing, and empowering communities.

This legislation will transform the delivery of homeless assistance programs by consolidating and reorganizing several disparate programs into a single source of funding to support local "continuum of care" systems to assist homeless persons and prevent future homelessness.

The Act would set the foundation for a total remake of our public housing program, ending public housing as we know it. The bill would remove disincentives for public housing residents to seek employment. It would reward entrepreneurial public housing agencies through deregulation and the granting of added powers to experiment and innovate. Anti-crime efforts would be streamlined and linked to other law enforcement efforts.

This bill also proposes to once again make HUD's Federal Housing Administration (FHA) a positive force for enhancing homeownership opportunities. The Act would raise the maximum mortgage limits and give FHA the authority to innovate with new homeownership products as well as enter into risk-sharing arrangements with qualified governmental entities. Additional subsidy tools and increased funding for counselling will also help to foster homeownership opportunities.

2.

HUD's fair housing efforts would be greatly enhanced under this legislation, by advancing the goals of geographic mobility, neighborhood equity, and residential diversity. The bill would expand existing programs that enable HUD, with the aid of non-profit groups and state and local governments, to enforce our nation's fair housing laws.

Mr. Speaker, the Act would also consolidate and revamp HUD's Section 8 rental assistance programs, permit public housing authorities including Indian housing authorities to sell public and Indian housing to non-profit organizations to facilitate homeownership opportunities to public housing residents and create a new Choice in Residency program that would give, for the first time, recipients of federal housing aid the counselling they need to make informed choices about where they should live.

The Housing Choice and Community Investment Act would also support HUD's efforts to once again become a positive force in the revitalization of our nation's communities. The legislation would continue the strong support for the Community Development Block Grant program, create a Neighborhood LIFT program to develop neighborhoods' economic infrastructures, create a Community Viability fund to build the capacity of community-based groups, authorize additional funds for the President's empowerment zone initiative, and facilitate the use of Section 108 loan guarantees.

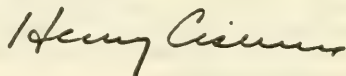
A section-by-section explanation and justification accompanies this letter and more fully sets forth the contents of the bill. I request that the bill be referred to the appropriate committee and urge its early consideration.

The Housing Choice and Community Investment Act of 1994 would affect direct spending; therefore it is subject to the pay-as-you-go requirement of the Omnibus Budget reconciliation Act of 1990. OMB's estimate is that the bill's pay-as-you-go impact will be zero.

The Office of Management and Budget has advised that the enactment of this legislation would be in accord with the program of the President.

I am sending a similar letter to the President of the United States Senate, Vice President Albert Gore, Jr.

Sincerely,



Secretary Cisneros' Response to Colloguy with
Congressman Lazio Regarding Section 602(b) Allocation

Pursuant to section 602(b) of the Congressional Budget Act of 1974, the House Committee on Appropriations subdivided 1995 budget authority and outlays among the subcommittees. The Subcommittee on VA-HUD-Independent Agencies was allocated \$70.4 billion in budget authority and \$72.9 billion in outlays. These allocations do not identify specific amounts for the agencies in the subcommittee. However, we have strongly urged the subcommittee to give favorable consideration to the Department's budget proposals in its markup.

Secretary Cisneros' Response to Colloguy with
Congressman Lazio Regarding Lapse/Elimination of Authorization

Only a repeal has the effect of eliminating a program authority from the law. However, the practical effect is the same whether a provision is repealed, lapses, or simply is not funded. The authority ceases to operate, thus saving budget authority, outlays, and scarce HUD staff resources.

The Department provided repealer language for the programs recommended for repeal in "The Transformation of HUD" report that was sent to the Senate Appropriations Subcommittee on VA, HUD, and Independent Agencies on May 2, 1994. A copy of the legislative text is attached. It is now up to the Congress to take appropriate action on these proposals.

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5/20/94

TITLE __ -- PROGRAM TERMINATIONS

TERMINATION OF CERTAIN

COMMUNITY PLANNING AND DEVELOPMENT PROGRAMS

SEC. -01. (a) COMMUNITY INVESTMENT CORPORATION

DEMONSTRATION. -- Section 853 of the Housing and Community Development Act of 1992 is hereby repealed.

(b) ECONOMIC DEVELOPMENT TRAINING PROGRAM. --

Section 105(d) of the Housing and Community Development Act of 1974 is hereby repealed.

(c) REPEAL OF SOLAR ASSISTANCE FINANCING ENTITY. --

Section 912 of the Housing and Community Development Act of 1992 is amended by --

(1) amending the caption to read: "REPEAL OF SOLAR ENERGY AND ENERGY CONSERVATION BANK PROVISIONS";

(2) striking "(a) ESTABLISHMENT.--" and all that follows through "(i) REPEALS.--"; and

(3) redesignating the remaining paragraphs (1) and (2) as subsections (a) and (b), respectively.

(d) THE NATIONAL CITIES IN SCHOOLS COMMUNITY DEVELOPMENT PROGRAM. -- Section 930 of such Act is hereby repealed.

(e) NEW TOWNS DEMONSTRATION PROGRAM FOR EMERGENCY RELIEF OF LOS ANGELES. -- Title XI of such Act is hereby repealed.

(f) ENTERPRISE ZONE DEVELOPMENT. -- Title VII of the Housing and Community Development Act of 1987 is hereby repealed.

(g) ENTERPRISE ZONE HOMEOWNERSHIP OPPORTUNITY GRANTS. --
Section 186 of the Housing and Community Development Act of 1992
is hereby repealed.

TERMINATION OF CERTAIN ASSISTED HOUSING PROGRAMS

SEC. -02. (a) MAJOR RECONSTRUCTION OF OBSOLETE PUBLIC
HOUSING PROJECTS. -- The United States Housing Act of 1937 is
amended:

(1) by repealing section 5(j)(2); and

(2) in section 14(c)(4) and section 18(a)(3), by
inserting after "(5)(j)(2)" the following: ", as such
section existed before the effective date of title ____ of
the _____ Act of 1994".

(b) PUBLIC HOUSING VACANCY REDUCTION. -- Section 14(p) of
such Act is hereby repealed.

(c) CHOICE IN PUBLIC HOUSING MANAGEMENT. -- Section 25 of
such Act is hereby repealed.

(d) HOPE FOR PUBLIC AND INDIAN HOUSING HOMEOWNERSHIP. --

(1) Title III of such Act is hereby repealed.

(2) The last sentence of section 5(h) of such Act is
amended by inserting before the period the following: ", as such
section existed before the effective date of title ____ of the
_____ Act of 1994".

(3) Sections 8(b)(2), 8(o)(9), 14(n), 18(e), and 20(f)(4)
of such Act are hereby repealed.

(e) SECTION 8(x): FAMILY UNIFICATION. -- Section 8(x) of
such Act is hereby repealed.

(f) **HOPE FOR ELDERLY INDEPENDENCE.** -- (1) Section 803 of the Cranston-Gonzalez National Affordable Housing Act is hereby repealed.

(2) Section 802(1)(1)(B) of such Act is amended by inserting before the semicolon the following: ", as such section existed before the effective date of title ____ of the _____ Act of 1994".

(g) **MOVING TO OPPORTUNITY.** -- (1) Section 152 of the Housing and Community Development Act of 1992 is hereby repealed.

(2) The second sentence of section 106(a)(3) of the Housing and Urban Development Act of 1968 is hereby repealed.¹

(h) **HOMEOWNERSHIP DEMONSTRATION PROGRAM IN OMAHA, NEBRASKA.** -- Section 132 of the Housing and Community Development Act of 1992 is hereby repealed.

(i) **INDIAN HOUSING EARLY CHILDHOOD DEMONSTRATION PROGRAM.** -- Section 518 of the Cranston-Gonzalez National Affordable Housing Act is hereby repealed.

(j) **PUBLIC HOUSING ONE-STOP PERINATAL SERVICES.** -- Section 521 of such Act is hereby repealed.

(k) **ENERGY EFFICIENCY DEMONSTRATION.** -- Section 523 of such Act is hereby repealed.

¹ Section 306(d) of HUD's FY 95 authorization bill repeals section 106(a)(3) of the Housing and Urban Development Act of 1968, which authorizes use of up to \$500,000 of FY 93 and 94 amounts for counseling activities in support of the MTO program.

1 **TERMINATION OF CERTAIN HOUSING PROGRAMS**

2 **SEC. _03. (a) HOME MORTGAGE INSURANCE FOR OUTLYING AREAS. --**

3 (1) Section 203(i) of the National Housing Act is hereby
4 repealed.

5 (2) The second sentence of section 203(k)(1) of such Act is
6 amended by striking "(i)".

7 **(b) REHABILITATION AND NEIGHBORHOOD CONSERVATION HOUSING**
8 **INSURANCE.**

9 (1) Section 220 of such Act is hereby repealed.

10 (2) The last sentence of section 203(k)(5) of such Act is
11 amended by inserting immediately after "section 220(h)" the
12 following: "(as such paragraphs existed immediately before the
13 effective date of title ____ of the _____ Act of
14 1994)".

15 (3) The first sentence of section 207(i) of such Act is
16 amended by inserting immediately after "section 220(f)" the
17 following: "(as such section existed immediately before the
18 effective date of title ____ of the _____ Act of
19 1994)".

20 (4) Section 212 of such Act is amended by striking the
21 second sentence.

22 (5) Section 221(f) of such Act is amended --

23 (A) in the first sentence, by striking ": Provided,"
24 and all that follows up to the period; and

25 (B) in the second undesignated paragraph, by striking
26 the parenthetical.

1 (6) The first sentence of section 224 of such Act is
2 amended by striking "section 220(f), section 220(h)(7)" and
3 inserting in lieu thereof the following: "section 220(f) and
4 section 220(h)(7) (as such sections existed immediately before
5 the effective date of title ____ of the _____ Act of
6 1994".

7 (7) The first sentence of section 226 of such Act is
8 amended by striking "220,".

9 (8) Section 227 of such Act is amended --

10 (A) in subsection (a), by striking clause (iii) and
11 renumbering the remaining clauses accordingly; and

12 (B) in the penultimate and last sentences of
13 subsection (c), by striking "section 220," each place it
14 appears.

15 (9) Section 232(i)(3) of such Act is amended by inserting
16 immediately after "section 220(h)" the following: "(as such
17 paragraphs existed immediately before the effective date of title
18 ____ of the _____ Act of 1994".

19 (10) Section 237 of such Act is amended --

20 (A) in subsection (a), by striking "220,";

21 (B) in subsection (c)(1), by striking "220(d)(3)(A),";
22 and

23 (C) in subsection (c)(3), by striking "220,".

24 (11) Section 240(d) of such Act is amended by inserting
25 immediately after "section 220(h)" the following: "(as such

paragraphs existed immediately before the effective date of title
 ____ of the ____ Act of 1994".

(12) Section 254 of such Act is amended by inserting
 immediately after "220" the following: "(as such section existed
 immediately before the effective date of title ____ of the
 ____ Act of 1994)".

(13) Section 302(b)(1) of such Act is amended --

(A) in the first sentence, by striking "section 220
 or"; and

(B) in the second sentence, by striking
 "220(d)(3)(B)(iii),".

(14) Section 513(e) of such Act is amended by striking
 "under section 220 if the mortgage is within the provisions of
 paragraph (3)(B) of subsection (d) thereof,".

(c) **MORTGAGE INSURANCE FOR SERVICE MEMBERS.** --

(1) Section 222 of such Act is hereby repealed.

(2) Section 203(g)(2)(D) of such Act is amended by striking
 "or subsection (b)(4) or (f) of section 222".

(d) **MORTGAGE INSURANCE FOR EXPERIMENTAL HOUSING.** --

(1) Section 233 of such Act is hereby repealed.

(2) The first sentence of section 207(i) of such Act, as
 amended by subsection (b), is further amended by inserting
 immediately after "section 233" the following: "(as such section
 existed immediately before the effective date of title ____ of
 the ____ Act of 1994)".

(3) The first sentence of section 224 of such Act, as amended by subsection (b), is further amended by inserting immediately after "section 233" the following: "(as such section existed immediately before the effective date of title ____ of the _____ Act of 1994".

(4) The first sentence of section 226 of such Act, as amended by subsection (b), is further amended by striking "233,".

(5) Section 227 of such Act, as amended by subsection (b), is further amended --

(A) in subsection (a), by striking clause (v), as redesignated by subsection (b), and renumbering the remaining clauses accordingly;

(B) in subsection (c) --

(i) in the penultimate sentence, by striking "section 233,"; and

(ii) in the last sentence, by striking "or section 233,".

(6) Section 238(b) of such Act is amended --

(A) in the first, third, and fourth sentences, by striking "233(a)(2)," each place it appears;

(B) in the fifth sentence, by striking "233(a),".

(7) Section 519(e) of such Act is amended by striking "233(a)(2),".

(e) **MORTGAGE INSURANCE IN MILITARY IMPACTED AREAS.** -- Section 238(c) of such Act is hereby repealed.

(f) MORTGAGE INSURANCE FOR GROUP PRACTICE FACILITIES. --

(1) Title XI of such Act is hereby repealed.

(2) Section 1 of such Act is amended by striking "IX, and XI" each place it appears and inserting in lieu thereof the following: "and IX".

(3) Section 212(a) of such Act, as amended by subsection (b), is further amended by striking the last sentence.

(4) Section 223(e) of such Act is amended by striking "or title XI" each place it appears.

(5) Section 227 of such Act, as amended by the preceding provisions of this section, is further amended by striking in the first sentence the following: "or a property or project described in title XI".

(6) Section 254 of such Act, as amended by subsection (b), is further amended by inserting immediately after "title XI" the following: "(as such title existed immediately before the effective date of title ____ of the _____ Act of 1994)".

(7) The first sentence of section 512 of such Act is amended by inserting immediately after "XI" the following: "(as such title existed immediately before the effective date of title ____ of the _____ Act of 1994)".

(8) Section 530 of such Act is amended by inserting immediately after "XI" the following: "(as such title existed immediately before the effective date of title ____ of the _____ Act of 1994)".

(g) **MORTGAGE INSURANCE FOR MANUFACTURED HOME PARKS.** --

Section 207 of such Act is amended --

(1) in subsection (a)(1), by striking "or upon which there is located or to be constructed facilities for manufactured homes";

(2) in subsection (a)(6), by striking "in a manufactured" and all that follows up to the period; and

(3) in the second undesignated paragraph of subsection (b), by striking the parenthetical.

(h) **ENERGY EFFICIENCY DEMONSTRATION.** -- Section 961 of the Cranston-Gonzalez National Affordable Housing Act is hereby repealed.

TERMINATION OF MISCELLANEOUS PROGRAMS

SEC. -04. (a) LEAD-BASED PAINT TECHNICAL ASSISTANCE AND CAPACITY BUILDING. -- Section 1011(g) of the Residential Lead-Based Paint Hazard Reduction Act of 1992 is hereby repealed.²

(b) DISASTER RELIEF. -- (1) **SECTION 8 CERTIFICATES AND VOUCHERS.** -- Section 931 of the Cranston-Gonzalez National Affordable Housing Act is hereby repealed.

(2) MODERATE REHABILITATION. -- Section 932 of such Act is hereby repealed.

EFFECTIVE DATE; TRANSITION RULES

SEC. -05. (a) This title shall become effective on the later of October 1, 1994 or the date of enactment of this Act.

² This repealer is instead of section 902(a) of the HUD FY 95 authorization bill.

1 (b) The repeal of program authorities under this title
2 shall not affect any legally binding obligations entered before
3 the effective date of this title.

4 (c) Any funds or activities subject to a provision of law
5 repealed by this section shall continue to be governed by the
6 provision as it existed immediately before repeal.

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